

Microcredit in Post-Conflict, Conflict, Natural Disaster, and Other Difficult Settings

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Table of Contents

Abstract	2
Introduction.....	2
The Context of Crisis, Disaster and Conflict.....	6
Conflict and Post-Conflict	7
Microcredit Challenges During Conflict.....	11
Conflict Implications for MFIs	26
Post-Conflict Lessons.....	28
Microcredit in Conflict Key Points.....	33
Microcredit and Natural Disasters.....	34
MFI Cases During Disasters.....	40
Microcredit Learning From Disasters.....	46
Microcredit in Other Difficult Settings	50
MFI Responses to Slow Onset Difficulties	56
New MFI Mechanisms in Other Settings.....	58
Conclusions.....	60
Acknowledgements.....	63
References.....	63

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Abstract

This paper will focus on responses of MFIs in coping with the injuries and deaths of microcredit clients and families when human conflicts, disasters of nature, and other crises strike. Themes include restarting operations, preserving staff security, adjusting collection methods, recapitalizing devastated village banks, extending timelines for credit and repayments, jump starting informal economies, etc. We will discuss how MFIs provide humanitarian aid to clients hardest hit—human conflicts in Bosnia and Herzegovina (1990s), Afghanistan in recent years, Rwanda (1994), the on-going Palestinian-Israeli struggle, and natural calamities such as Hurricane Mitch in Honduras (1998), earthquakes in El Salvador (2001), the Asian tsunami of 2004, and the Pakistan quakes of 2005. Other difficult settings that arise from neither a direct conflict nor natural disaster will also be addressed-- problems such as drought, wildfire, and disease.

Introduction

Hurricane Mitch devastated much of Honduras, as well as other regions of Central America during late 1998. As a professor of social entrepreneurship and organizational behavior, I was scheduled to teach my regular load of MBA-type courses. But shocked by the unfolding havoc Mitch was unreeling as floods engulfed the area, I decided to teach a new elective for students from across the Brigham Young University campus. Called OB 490, "Becoming a Global Change Agent," it was going to be an action research experience at mobilizing college students, training them how to change the world, organizing teams of practitioners who would help to plan and/or go to Honduras during the summer of 1999 to serve as relief and reconstruction volunteers as well as creators of new communal banks among the poor.

The course was a dynamic, participatory experience. All told, some 79 individuals, either registered for the course, or attended twice a week as auditing students. We formed teams to plan the logistics of going to Honduras, where the needs were greatest, and to explore what microfinance institutions (MFIs) were in the country, which ones we could partner with, and determine relief and humanitarian aid we might offer to poor families. As well, we organized a Honduras culture team to teach volunteers about local norms, values, and technical terms in Spanish, established a PR group to obtain media attention, a fundraising team to help generate monies, and a group of microcredit resource people who would train everyone in the class about village banking.

University administrators, faculty colleagues and community professionals generally opposed this project. They claimed I would not get more than a half dozen students to go, we would not raise sufficient funds, as well as asserted that large relief organizations would take care of everything: USAID, the U.N., World Bank, churches and the Red Cross.

But they were wrong. Forty-six students went to Honduras, committed to volunteering six weeks or more each. We raised \$116,000. We created 46 new communal banks with our partner, FINCA International. We also gave FINCA \$40,000 to recapitalize village bank groups whose microenterprises were destroyed by Hurricane Mitch; thus, in reality, creating a total of a hundred banks all together. These young social entrepreneurs became quite skilled very rapidly.

They selected the name H.E.L.P Honduras for the new NGO (meaning "Help Eliminate Poverty"). We put together a packet of the deliverables from each of the OB 490 teams, and it was bound and distributed as "The Honduras Stewardship Project Handbook."

Arriving in Central America, we were shocked at the destruction's impacts after a few months time. Even though we had seen TV footage, read press reports, and searched the internet to gain a comprehensive understanding of the crisis, we were not prepared for what we encountered. Individuals were cramped into temporary lean-to shelters, make-shift "houses" of blue plastic tarps that were gradually being shredded by the strong blasts of evening winds. Bodies were still being found under the bushes along the banks of the main river that meandered through the capital, Tegucigalpa. Buzzards high up in the trees hovered around, waiting to get at the next torsos of rotting human flesh they knew would soon appear. Bridges and other sections of the great Pan American Highway were destroyed. Overturned automobiles, trashed downtown buildings that looked as though they had been thrown during a game of pick-up sticks, and other signs and smells abounded. People were afraid, primarily women and children, especially during the night. Every time a bit of rain began falling, they ran screaming for help and safety. Hundreds of thousands of Mitch survivors struggled as they tried to cope with Post Traumatic Stress Disorders (PTSDs).

In this traumatic environment, we began our labors. While some NGOs told us nothing could be done, in fact much was accomplished. Hopefully, from our learning in the trenches, as well as citing the experience of others, some of this paper's ideas and suggestions may be useful to the reader. Out of the mess and the mud and the homelessness, insights were acquired. This manuscript is, thus, not about some ethereal concepts or theoretical treatise. Rather, it arises from the blood and guts of Third World realities.

H.E.L.P. volunteers lived with poor families, paying them a per diem amount for room and board which aided in their financial recovery. Over 14,000 hours of volunteer service were provided—to women and children in refugee camps, to shoveling out the mud, washing the walls, disinfecting them, painting and re-opening village schools, to providing manpower to local governments—cleaning streets, rebuilding bridges, assisting groups of

peasant farmers who suddenly had no tools, no seed, and no fertilizer. Many hours were given in loving aid at orphanages, to the children and the Catholic nuns who were overwhelmed by the growing number of new orphans. HELP purchased tools for farmers so they could jump-start farm preparations on their tiny plots and be ready for the next growing season, and also bought fertilizer and seed.

Honduras, declared the multilateral institutions, was set back 50 years by Hurricane Mitch. Seventy percent of the country's infrastructure was damaged. Nearly 90 percent of its agricultural produce was obliterated and large fruit companies pulled out. Throughout Central America 20,000 people died, an equal amount was missing and a million were homeless. H.E.L.P. Honduras' microcredit efforts created some 800 jobs benefiting nearly 4,000 individuals. Beyond microcredit we taught computer skills, brought older street children into care centers, and served in understaffed rural medical clinics. One young BYU student even delivered five babies!

We sought donated relief supplies from church groups in Utah, Idaho, Arizona and California. We took toys to impoverished children in the Mitch refugee camps, including lots of soccer balls and air pumps, which we gave away. We took quilts and baby blankets lovingly made by the hands of Mormon Relief Society women throughout communities in the Rocky Mountains. We took school kits--crayons, paper, pencils, pen, tape, scissors, etc.--to give children when we got their schools reopened and ready. We assembled hundreds of newborn kits for expectant Honduran mothers. We also put together hygiene kits for refugee families—soap, towels, toothpaste and toothbrushes, washcloths, hair shampoo, and so on.

The results? Our microcredit efforts, new capital, training materials and organizing skills were supplemented with a host of other humanitarian aid to help the poor get back on their feet. The needs were considerable for the thousands of families that HELP was able to assist. The result was a vision

these college students gained that, while they can't do everything, they can at least do something. They can make a difference. They learned the importance of preparation, financing and skill acquisition. Perhaps most importantly, they learned that young college students can become empowered to serve the poor and generate long-term impacts that may eventually become sustainable. By doing so, they begin to have a life-changing experience that will continue to be played out as other Third World crises occur in the future. The ripple effect of H.E.L.P. Honduras may go on into the rest of their lives as social entrepreneurs.

The Context of Crisis, Disaster and Conflict

The H.E.L.P. mini-case described above illustrates some of the challenges microcredit NGOs face when turbulence surrounds them. In this paper I attempt to draw on my personal action research experience, observations in the field of other NGOs doing microcredit, as well as report on the experience of other authors, analysts and policymakers. We will survey the extent of conflict and natural disasters in recent years and attempt to categorize them. Next, I illustrate some of the complexities in managing MFIs under difficult conditions. What are the tough issues? Then I attempt to identify some microcredit programs that seemed to succeed, as well as those that ended, or did not have much success. We will address a few complex issues and try to assess how MFIs dealt with them. Finally, the paper concludes with suggestions for future research.

As indicated in the title, this paper focuses on three sets of problems that impinge on the rise of the global microcredit movement. They include 1) Conflicts and Post-Conflict settings that rise from the actions of groups of people; 2) Natural Disasters in which unplanned for forces of nature wreak havoc on communities and/or nations; and 3) Other Difficult Settings which do not easily fit into either of the previous categories, but nonetheless take a

toll on human beings and interfere with microcredit operations. We will describe the extent of these problems, one section at a time.

Conflict and Post-Conflict

In spite of the end of the Cold War between the USSR and the West, armed fighting around the globe has continued, perhaps even escalated, in the past 15 years. In fact, in some countries, internal civil wars have occurred over many decades, factors which breed distrust and resentment even today. Within the Third World, over 50 long-term wars have been fought in recent years. Virtually every country on the African continent has either been directly involved in one conflict or another. If not fighting a war directly, they have suffered the invasion of millions of refugees from areas where armed wars have occurred.

Below is a brief listing of important conflicts, some of which were eventually resolved, but they still interfere with microcredit programs in today's post-conflict setting:

- 1980s-1990s—Former Yugoslavia: Breakaway republics; conflicting regions fought each other--Croatia, Serbia, Kosovo, Slovenia, Bosnia-Herzegovina; Inter-regional wars, genocide, civil conflicts and reconstruction into new nations; huge rates of household unemployment; millions of displaced civilians; multi-ethnic "cleansing," etc.
- 1940s-2006—India: Civil conflicts within India by various warring political and religious groups: Muslims vs. Hindus vs. Communists; the tragedy of these conflicts has gone on for decades with the killing of thousands of innocent people.
- 1998-2003—Pakistan vs. India: Kashmir territorial dispute went on for over 40 years, killing thousands and leaving 8 million refugees; cease-fire agreed to in 2003.

- 1998-2003—The so-called “Second Congo War” actually embroiled nine African countries and some 200 armies, leading to 3.8 million deaths, primarily from disease and starvation as millions of families were displaced by the conflicts.
- 1988-1994--War between Armenia and Azerbaijan resulted in thousands of deaths and forced displacement of 1.1 million people.
- 1979-2003--Liberian coups and civil wars among various warlords and political forces.
- 1991-2002--Sierra Leone: Government troops vs. the Revolutionary United Front (RUF), funded by the diamond trade; fought for 8 years; 75,000 killed; 200,000 injured; 500,000 fled to other countries.
- 1980s-1990s—Mozambique: Civil war between FRELIMO government (Soviet backing) and RENAMO (liberation forces), leading to a million deaths and 1.7 million refugees who fled the country.
- 1994—Rwanda: Genocide in which Hutus massacred nearly a million Tutsis, forcing millions more to flee and try to survive as refugees in neighboring countries.
- 1960-2006—Somalia: Dictatorships ruled for 30 years; spent 45 percent of annual budget on military action; led to armed insurrection, violent banditry and ultimately the collapse of the government; it then disintegrated into chaos and rival war lord infighting since 1990; today the capital city, Mogadishu, is a graveyard for the dead.
- 1980s-2006--Sudan: Government-sponsored Arab militia oppressing black African citizens; 300,000 dead and 2 million refugees.
- 1900s-1990s--South Africa’s apartheid system in which white government organizations oppressed the black majority, leading to armed conflict by the African National Congress (ANC) that lasted for a century and resulted in the death of millions, mostly of the black majority.
- 1993-2002--Papua New Guinea: Bougainville Island conflict between the government and indigenous people; 15,000 dead; current push for autonomous region.

- 1950s-1999--Indonesian government vs. East Timor/Banda Aceh movement; armed forces pushing for succession from the national government of the region, as well as religious tensions between Roman Catholics of East Timor vs. Muslims of Indonesia, resulting in 20 percent of the population dying.
- 1980s-2006--Sri Lanka: Government conflict with Tamil Tigers; Hindus vs. Buddhists in religious wars, as well as seeking independence; 65,000 killed so far.
- 1990s-2006--Russia vs. the break-away republic of Chechnya that blew open after the dissolution of the USSR, leading to terrorist bombings, kidnapping, and massacres on both sides.
- 1987-2000—Fiji: Civil conflicts between native Fijians and ethnic Indians from the subcontinent fighting over race, ethnicity, and seeking government power through coup attempts.
- 1948-2006--Jewish Israelis vs. Arab Palestinians; Israeli government troops occupying Palestinian territories; fighting armed militant groups such as Fatah and Hamas resulting in economic disintegration; tens of thousands of deaths, military occupation, and suicide bombings.
- 1980s-2006—Afghanistan: Twenty-five years ago it suffered the occupation of Soviet tanks and troops, leading to the rise of resistance fighters; next came the Taliban clamping down on the society until the U.S. invasion of 2001. Today the Karzai government is propped up by U.S. troops. However, there is a steady, low-level conflict of insurgent forces attempting to disrupt Afghan society.
- 2003-2006--Iraq: Civil conflicts between Kurds, Sunni, and Shiites, complicated by the U.S. occupational forces that toppled Saddam Hussein. Death estimates range from 30,000-100,000 Iraqis, plus over 3,000 foreigner deaths.
- 1981-1991--El Salvador: Extreme right wing government in conflict with leftists that led to oppression, guerilla warfare and 80,000-100,000 deaths.

- 1980-1990--Nicaragua: Right wing, U.S.-sponsored government troops vs. Sandinista revolutionaries leading to 30-40 thousand dead and destroyed economy.
- 1976-1996—Guatemala: Military junta vs. indigenous peasants in conflict resulting in an estimated 300,000 deaths.
- 1994-2006--Mexico: Federal troops vs. Zapatistas; peasant armed guerillas in the southern state of Chiapas seizing towns, fighting government militia, etc.
- 1970s-1990s--Peru: Leftist guerillas such as the Tupac and the Shining Path waged violence and destruction throughout the country for 20 years. Right-wing troops and military units fought back. Between the two parties, they killed whole villages, destroyed power plants, kidnapped each others' leaders, and so forth.
- 1970s-2006--Colombia: Government engaged in jungle battles with the regional National Liberation Army (ELN) and the Revolutionary Armed Forces of Colombia (FARC) that has consisted of massacres, kidnappings, torture, and "disappearances," with civilians caught in the crossfire, leading to 35,000-plus deaths and the displacement of 3 million citizens.

Thus, we can see that a variety of factors are associated with these "Wars of Balkanization:" Ethnic, cultural, religious factors, civil unrest, poverty, lack of access to land, factionalism, terrorism, racism, and separatism—all give rise to geopolitical conflicts. While the above list is horrifying, it probably does not include all major manmade conflicts of recent years. Even more could be added if we included small-scale in-fighting cases: Nigeria (1999), Cote d'Ivoire (2001), Uganda (2002), Nepal (2000), Philippines (since 1990s), Kurdistan (1990s), and Cyprus (1950s-2005).

To me, as tragic as wars are in and of themselves, today's conflicts are even worse for some groups of population more than others: Women more than men, children more than adults. One of the grimmest facets of modern wars

is the reality that many youngsters are forced to become combatants. According to one report, over 300,000 children are currently fighting in the many conflicts around the globe (Save the Children, 2006).

Children now account for 10 percent of soldiers worldwide. Even more horrifying is that growing numbers in recent years are girls. The young are often abducted from their homes at night, threatened with death if they do not comply, trained in shooting skills, given an AK-47 or other weapon, and coerced to kill civilians, sometimes even neighbors to start with, so as to harden their sensitive nature as innocent children. Not all of them become soldiers. Some perform other duties such as cooks, porters, sex slaves, and so forth. In today's environment, children as young as age 7 are engaged in 27 conflicts worldwide, including wars in Colombia, Liberia, Uganda, Cote d'Ivoire, Congo, Nepal, and Sri Lanka. Suffice it to say, conflict and post-conflict problems exact a heavy toll on human beings and families, as well as regional and national economies.

Microcredit Challenges During Conflict

For NGOs and for-profit MFIs, there are numerous challenges to be faced in such settings. From time to time the dangers of doing microcredit in such circumstances lead to tragic outcomes. For instance, two of World Relief's staff were killed in Cambodia in 1996 for a paltry \$150 they were carrying (NEXUS, 1996). In other countries, microcredit staff have been robbed or threatened because they were known to have bank loan funds with them as they traveled to group meetings. At times, MFI offices have been burglarized because thieves knew that money was inside. Of course, common acts of robbery may occur in any country, but under conditions of conflict, instability makes the danger worse.

For microcredit practitioners, the consequences of conflict lead to a number of problems: Poor infrastructure; agriculture and trade is hindered;

disruption of the financial system; rising crime and/or gangs; high rates of joblessness; low levels of income; the disruption and/or distortion of markets; rise of refugees suffering from high mobility; shut-down schools and educational opportunities; deterioration of cities in terms of buildings, industry, roads, water supply, and electric power.

While human conflicts and their aftermath result in deaths, wounded masses, and much tragedy, they may also offer a chance to respond and/or rebuild with a better future. I have been struck by the deep commitment of the poor to be responsible for their microloans, even in the face of death or other factors. Years ago, I was starting an MFI program in West Africa, through our NGO, the Ouelessebougou-Utah Alliance. One of our first borrowers suddenly died only weeks after receiving his initial loan. We went to his compound to offer condolences and inform the family that they did not need to pay off their father's microloan. It was the least we could do, we reasoned, and it would take pressure off the family during their time of grief. I was shocked when the daughters said they would pay off his loan because it was the honorable thing to do, something their father had always taught them.

In another African case I once heard about, several hundred loans were given out to refugees after 15 years of civil war ended. Suddenly the borrowers learned they could safely travel back to their home villages. Instead of departing immediately, however, they stayed until they had earned enough from their microenterprises to pay back the balance still owed in each case. Hundreds of impoverished people were involved in this case, and the MFI officials assumed the worst—that the money would be gone and the staff would be holding an empty bag. But it did not happen. Instead, a hundred percent of the debt was repaid, with interest, before families moved back to their homelands.

In general, war grows from competition and scarcity, as well as being rooted in racism, religious differences, and cultural conflicts. While many bemoan

the extent of war's victims, optimists suggest that conflict also offers the opportunity to change people's behavior. It may even provide a blank slate to start over, creating the possibility that cities may be rebuilt, neighbors may become reconciled, and a fresh start can lead to economic growth and social justice. Such perspectives may be overly optimistic, but if a community or nation is willing to try, they have the chance to take advantage of terrible circumstances and produce something better.

On the other hand, war and civil conflicts exact a huge toll on a region, communities, families and individuals. Beyond the dead and wounded in war, the displaced survivors become a huge challenge. For instance, some 70 million individuals have been dislocated in recent years (Holtzman, 1995). If and when they are able to return to their homes and communities, the scenes of such occurrences suggest to the mind the large-scale Diasporas of the past.

The ability to rebuild economically through microcredit and other strategies is often complicated by destroyed infrastructure, political in-fighting, the lack of capital, as well as resentment from evils perpetrated and distrust of other parties based on past experience during the periods of conflict.

The section below attempts to illustrate several core issues and how they were dealt with by MFIs.

Bosnia-Herzegovina Microcredit

The armed conflict among regions of the former Yugoslavia had disastrous consequences for many people, outsiders as well as insiders. Bloodshed, torture, the collapse of political institutions and material infrastructure characterized the late 1980s-early 1990s. Among other difficulties, the country was afflicted by the placement of an estimated four million land mines. Finally, the Dayton Peace Agreement of 1995 ended the fighting and

allowed for massive interventions from the outside to rebuild the region and jump-start the fledgling new nation.

However, by that time poverty was endemic. Surveys showed that approximately three-fourths of the population could not afford basic family necessities. Some 37 percent of all households were unemployed, a tragic legacy to the war years. Pensioners, disabled people, and children suffered the most because they were the weakest. Over 28 percent of the people were refugees, another critical factor in explaining poverty. With respect to gender, 24 percent of men were unemployed while the rate for women was 42.3 percent (PRSP-I, 2001).

A number of microcredit constraints existed: Poor bank credits, no sound business environment, lack of innovation, unskilled managers, high distrust, unreliable transportation systems, and so on. Financial corruption was a huge difficulty. The U.S. General Accounting Office estimated that outside donors gave over \$4 billion to facilitate rebuilding efforts between 1996 and 1999. Yet corrupt officials still ran the country and sought access to outside funding. According to *The New York Times*, almost one billion dollars ended up in the pockets of officials who were eventually charged with genocide and crimes against humanity (Hedges, 1999).

A major World Bank study of the Bosnian post-conflict situation found that the region's populace considered itself "have-nots," a sharp change from the 1970s and 80s when most viewed themselves to be middle-class (or the "haves"). Industry was blown up or shut down; black market (underground) income was desperately needed by many simply to subsist; uncertainty and insecurity were rampant; hunger and poor health became commonplace, along with psychological concerns and stress. While those at the top of the economic pyramid enjoyed all the fruits of war-profiteering, the masses in the middle declined rapidly. They suffered from housing insecurity, including many who were forced to reside in collective centers or refugee camps.

There was very little upward mobility, but instead, mass mobility downward for the majority. People did not trust their new government, outside donors, or other ethnic groups. They seemed to have positive feelings only for family and friends (Djipa, undated).

From a population of 4.4 million, the three-year war left a million displaced people within the country, 800,000 who fled to the outside, and more than 200,000 who were killed. So-called ethnic cleansing has resulted in enclaves still today of one group or the other, with very little mixing. Prior to the war, in 1988, inflation had already risen to 340 percent, a terribly high rate. During 1989, it mushroomed to over 2,000 percent, largely due to the instability and ravages of the entire country. All this was occurring during a time of growing tensions in which industrial production almost disappeared, functioning at only 5-10 percent of pre-war levels. Approximately 60 percent of livestock and 70 percent of agriculture equipment was destroyed. About half of all homes were badly damaged.

With such a backdrop, achieving microcredit success might have seemed doubtful. But, in fact, the opposite is true. Beginning shortly after the Dayton Accords, MFI organizations began to set up shop in Bosnia-Herzegovina, focusing largely in urban areas. Officials of the financial sector accepted NGOs that were giving loans, feeling they were not a threat to the emerging banking industry. Government regulators felt no need to control the new MFIs, and they also made the registration process for NGOs quick and simple. The small, new country of 4 million people has seen the creation of over 40 MFIs since 1996 including Mikrofin, Mi-Bosporo, Sunrise, and World Vision (Vemic, 2005). These MFIs today are some of the largest in Eastern Europe, are highly profitable and enjoy a healthy competitive environment. The MFI, Prizma, is one of the greatest successes of post-conflict microcredit anywhere.

Prizma: This MFI obtained seed capital from the U.S. and the U.N. and started operations in the city of Bihac in 1997. Focused on training and financial services for low-income ethnic minorities and refugees, most of whom are women, the NGO has grown rapidly in pursuing long-term social impacts and sustainability. By 2001 Prizma had become financially self-sufficient and it was selected as the first MFI in Eastern Europe to receive an external rating of a "G 4 ++ institution."

In spite of horrendous obstacles facing the Newly Independent States (NIS) as they moved from federal bureaucratic control toward democracy, Prizma has enjoyed success. Even in the case of Bosnia moving through phases of stability to civil war and then to reconstruction, Prizma has had a great impact on household well-being. Currently it has spread to five major branch offices and over 35 small satellite offices. Its staff of more than 90 individuals works in over forty low-income communities. It has a loan portfolio of \$13.3 million spread among 18,606 microentrepreneurs, 97 percent of whom are poor women (Prizma, 2006).

Palestinian Microcredit

The population in the Palestinian Territories totals 4.1 million people, two-thirds in the West Bank and a third in the Gaza Strip. During 2002 some 41.2 percent of the working age population was unemployed. Lack of peace, stability and security are all factors leading to economic difficulties. MFIs in the region have attempted to build the informal economy and improve the quality of life of poor families. Below we examine some of the challenges faced by MFIs in Palestine.

The Arab Center for Agricultural Development: ACAD was established as an NGO in 1993 and recognized by the Palestinian Authority in 2001. The focus is on channeling capital to rural areas where the poverty rate is high. Headquartered in Ramallah, it has four field branch offices as it attempts to target families affected by the political difficulties—joblessness, lack of food

insecurity, and inability to travel to other regions because of the “police state” created by Israeli troops. ACAD’s products consist of 1) Invested loans to pay for greenhouse construction, irrigation systems, and farm equipment; 2) Loans for working capital for business start-ups (seed, fertilizer, salaries, etc.). The NGO also offers training in small business skills, agricultural topics, and capacity-building, such as how to defend clients’ rights.

Palestine for Credit and Development: The second case is known by its Arabic acronym, FATEN, an NGO in the Middle East (FATEN, 2006). It grew out of the NGO Save the Children in 1995, becoming an independent MFI in 1999. Approximately 50 percent of its clients are in Gaza with the other half in the West Bank. Although its loan portfolio suffered as the intifada began, its staff assessed its problems and analyzed potential solutions, with the result being that its portfolio tripled within 3 years. The problems were severe: The Israeli wall being built; growing incursions of occupying troops; daily bombings and attacks on FATEN staff and client homes; complete closure of many areas; deaths of FATEN family members; restricted movements that often consist of 25-30 checkpoints; inability to transport raw materials or finished products—all combine to make economic transactions difficult, if not impossible. Yet, in spite of such circumstances, FATEN has 4,908 clients, having given a total of \$41 million in loans to 71,235 clients (99 percent female), at an average of \$577. It has 15 offices in the Palestinian Territories operated by a staff of 67 individuals. The MFI uses a sophisticated MIS system to track all necessary information. Impressively, FATEN has achieved 117 percent operational sustainability.

Caritas Jerusalem: The third case is that of a faith-based program in Palestine that is but a small MFI of worldwide Caritas, a Catholic federation of 162 organizations operating in over 200 nations (Caritas, 2005). The program only gives individual loans and the microentrepreneur must have two qualified guarantors in case of default. In contrast to most other MFIs,

Caritas' 500 or so yearly borrowers are largely male, while women receive a modest ten percent of income-generating funds. Some 80 percent of loans are for new start-ups.

United Nations Relief and Works Agency: UNRWA was started after the first Gulf War in 1991. Its focus is in urban centers where there is a density of Palestinian refugees. Most of the microentrepreneurs UNRWA helps are impoverished people trying to eke out an existence through economic trade, services, or small manufacturing in the informal economy (UNRWA, 2005).

All four of these NGOs we reviewed have suffered greatly since the 2001 *intifada*. Caritas, for instance, reported that the short ten kilometer trip its staff traveled daily between Bethlehem and Jerusalem used to only take 15 minutes. But with the repression of Israeli soldiers, it began to take several hours due to checkpoints. That could mean a decline of MFI staff productivity eight times what the travel costs used to be.

Caritas was required to develop security measures for its staff members who faced threats of robbery, injury and murder as regional anger grew. A high conflict area where such weapons as guns, grenades and other explosives are readily available meant the need to be continuously aware of rumors, plans and violence, as well as the need to often change travel patterns to lessen the likelihood of kidnappings and ransom demands.

One of the ways several Palestinian MFIs cope with all this is to create a write-off subsidy fund for loans that are far behind, or that may never be repaid due to one's microenterprise being destroyed, or the borrower becoming severely wounded or dying. Israeli security measures were increased, economic repression was intentional and widespread, and tragic results occurred. Microenterprises went bankrupt, and even survivors had to reduce capacity. For the MFIs, the demand for microloans plunged because people were in fear of trying to start microenterprises with such turbulence.

The economy broke completely down in 2002 when the occupying forces set up their “Defensive Shield” of military control, road closures and curfews. The impact on UNRWA was devastating. From 9,000 loans in the 2001 portfolio of \$7 million, it dropped to merely a few thousand the next year. Loan repayments were in arrears for all these MFIs, many clients simply unable to make any payments at all.

A number of the large loans to SMEs were not repaid as firms went bankrupt and employees were laid off because they could not even get to the workplace, to say nothing of the disappearance or deaths of customers. UNRWA reacted by revamping its marketing, emphasizing the provisions of loans to growing numbers of street vendors and other microenterprises in the informal sector. Consumer loans were cut to just a few hundred annually. In spite of portfolio disintegration, the Israeli military shield, and a crisis economy, UNRWA’s new strategy enabled it to recover and, in fact, grow its outreach to \$8.7 million in loans to some 12,000 clients.

The lesson from all this? In times of tense conflict, MFIs must change their strategies to cope with geopolitical economic shifts. War-torn conditions are difficult, but they may also become the prime time for galvanizing resources in the midst of strife. During years of *intifada*, when there is political repression and prolonged violence, the informal economy can not only survive, but even grow.

Palestinian NGOs must increasingly struggle in environments of uncertainty and hostility. Although they seek to calm borrowers’ fears and express hope that peace will come to the region, they know much of the future is unknown. Unfortunately, in fact, the future will be an era of a new, young generation that is angry, having grown up in a high conflict culture of violence and dangerous weapons on both sides of the situation.

The earlier list of global conflicts suggest at the least several types of resistance factors that impede the doing of successful microcredit.

Physical factors: Damaged buildings, interruption of such services as electricity, water and fuel, closed schools, disrupted sanitation services, health problems;

Emotional factors: Confusion that arises from unpredictability, fear due to violence, uncertainty because of media reports and rumors, inability to make future plans, family geographical disbursement, social isolation, injuries or death of a loved one, cynicism, distrust, etc.;

Financial factors: Job loss, property damage or complete destruction, loss of shelter, economic decline, layoffs, unwillingness to invest even if one has resources, dependency on outside aid money that may lead to expectations of welfare.

With several or all of the above factors brought into play, how may microcredit programs continue, begin, or re-start? The prevailing mindset may be that the time is not "right," that conditions need to improve, that there is too much uncertainty for launching microcredit services. But the opposite may actually be true. Perhaps it is out of struggle and conflict that MFIs may, indeed, continue. The Palestinian cases of UNRWA and FATEN suggest that the two NGOs not only survived, but *thrived*. I believe part of it was due to the sheer will to not only reverse their losses, but overcome them with creative new strategies for coping with the *intifada*. It required a confronting of the myth that things will only get worse; a shift to a new business paradigm, and the result was the generation of innovative change.

Take the example of Afghanistan's several decades of conflict. In spite of the Soviets, the Taliban, and the current skirmishes between the Taliban and U.S. Marines, microcredit is thriving. A recent report in a *Christian Science*

Monitor article reveals that some 10,000 Afghan women have been trained in the past couple of years to become entrepreneurs (Montero, 2006). Pashtun Begum, a war widow, once eked out a meager existence for herself and her 4 children by going door-to-door, asking residents if she could wash their clothing for a little money. No more. She is currently receiving training at the All Afghan Women's Union where she is learning how to produce decorative ornaments, as well as good business skills. She declares, "I want to make myself self-sufficient," a radical reversal of the Taliban decade when women couldn't hold jobs or go to school. Approximately 75 percent of Afghanistan's microentrepreneurs are now female. They are empowering the next generation of girls, as well as refuting the chauvinism of Taliban culture. The deprivation of past decades is being overcome by the small fortunes of newly assertive women who believe they have a significant role to play in national reconstruction. From a culture in which only 14 percent of women are literate, they are taking their daughters to school, and then pursuing enterprise training themselves. Such women seem to feel that business is the best path to tearing down the male pyramids of the past and creating a level playing field.

Sensing a ripe opportunity, FINCA International was the first MFI to start-up operations after the U.S. invasion. The women use their microloans for everything from setting up a little in-home bakery to selling handmade products in the street. In one of the most interesting twists, the giant Worldstock.com has contracted with hundreds of craftswomen in the region, purchasing their creative goods at above average prices and selling them on the web. Worldstock's microentrepreneurs are now the largest economic federation in the country. My impression is that instead of war intimidating women, a condition that may continue in post-conflict settings, many Afghan women are motivated to push for change, more so, perhaps, than many other women in peaceful settings (Montero, 1999).

What elements are critical in beginning microcredit after a war? A CGAP "Brief" identifies a number of conditions to be considered. Within the external environment, they include a minimum level of political stability, population stability, and a functioning cash economy. For internal donor capacity the issues include having a qualified staff, a long-term outlook, and flexible funding (CGAP, 2004).

Rwanda Microcredit

Perhaps the microcredit movement in Rwanda best illustrates the rebirth of economic empowerment in post-conflict settings. In 1994 genocide arrived in Rwanda, already one of the poorest countries in Africa. Its features included brutal Hutu killings of Tutsi men, women and children on a massive scale—800,000 or more in a period of only three months. It was perpetrated by the *Interahamwe* (Hutu militia), as well as soldiers of the Rwandan Armed Forces (FAR), the Presidential Guard, and out-of-control civilians. The objective was to rid the nation of its Tutsi population through fear tactics, sexual violence and murder. Families were robbed, homes destroyed, individuals were tortured, and relatives were murdered with guns, machetes, pipes and clubs. Tutsi women suffered the most: Victims of sexual slavery, gang rape, forced pregnancies, and sexual mutilation.

The Hutu goal was to kill or drive away the opposing tribe using degradation, pain, death, humiliation and terror. Distorted propaganda fanned the flames of hate, leading to the dehumanization and subjugation of not only Tutsi, but often those who tried to hide or help that ethnic group, as well as the political opposition. Over a million people fled to Uganda or Burundi to escape. Now, 12 years later, the survivors have returned to their devastated villages. Many now have no home, no family. Children are orphaned.

The economic toll after genocide obliterated the nation. Gross domestic product fell by 50 percent, and today, over a decade later, it still has not returned to pre-war levels. In 1993 some 53 percent of families struggled

below the official poverty line. According to the World Bank in 1998, poor households had mushroomed to about 70 percent.

With the loss of 4 million people, whose tribal regions have been destroyed, places where blood literally ran down the streets, the struggle to rebuild is a challenging one. Today Rwanda is a largely female nation. Official estimates are that two-thirds of the population is female, and half of all families are headed by a woman. Whether a returnee from a refugee camp elsewhere, whether Hutu or Tutsi, whether in sickness or in health—all Rwandans suffer.

Women were not the only victims. As the genocide ended in 1994, the country had an estimated 95,000 new orphans. For those still with families intact, thousands of older children had been forced to commit atrocities, requiring them to bear the scars even now. A decade later, research shows that Rwanda has the highest portion of households headed by children. In many cases, their parents were murdered in the Hutu uprising. Additionally, many have become orphaned years later only because of AIDS inflicted on innocent women by the killers. AIDS continues to spread. Seven years after the genocide an estimated 264,000 children had lost one or both parents to AIDS. This means 43 percent of all Rwandan orphans lost their parents to slow genocide—rape and subsequent AIDS. One hundred thousand more will become orphans by 2010 according to UNICEF projections. Currently 20 percent of Rwandan children die before age 5.

The upheaval of the past has led to massive problems: Bad health, HIV and AIDS, stigmatization, emotional illness, extreme poverty, and unwanted pregnancies and/or children. In a number of cases, the mother committed infanticide to protest their own rape. Psychological injuries are tied to isolation and ostracization. Many do not dare discuss what they experienced, but bottling up the horror only makes things worse. Also, many fear they will be rejected by their surviving family members and/or the community. Some worry they will never marry or that they will be unable to integrate

into society. Others feel guilty that they survived the genocide while family members and friends were slaughtered.

How can economic empowerment succeed in such conditions? How can financial transactions operate in an atmosphere of suspicion, resentment and distrust? How does one reclaim property now controlled by another? Already impoverished, like many other Third World women, the women of Rwanda are de facto second class citizens simply by being female. Widows and orphaned daughters often face the daunting prospect of attempting to obtain justice in civil courts that have never been accountable. Seeking justice, testifying at court hearings, witnessing the work of the "Truth and Reconciliation Commission"—all exact a heavy burden on genocide survivors.

But even in such darkness, microcredit is beginning to grow. Many see it as the only viable path for women to escape economic disintegration. It does not compensate for the horrific sufferings of 1994, made all the worse by the fact that the outside world ignored the evil. But small loans with which to start a microenterprise, earn a bit of income, be able to feed and school one's children, sensing a degree of self-worth—all such outcomes are important in this country.

A list of Rwandan MFIs making a difference is as follows:

Canadian Baptist Ministries: Sends volunteer couples to live in Rwanda, carry out leadership development and community development activities, engage in global discipleship, and operate a microcredit program.

World for Women International: Provides microloans to female survivors of conflict and war; offers tools and resources to rebuild including leadership skills, vocational training, and political capacity for change. Only \$15 will start a woman's MFI savings account and \$107 buys a knitting machine for

making sweaters to sell. WFWI has initiated microcredit programs in Rwanda, Afghanistan, and Bosnia at a cost of \$1 million each.

World Relief: A faith-based global development NGO created Urwego in Rwanda after the genocide. It now has programs in 10 of Rwanda's 12 prefectures, and has a total of 18,000 clients. Urwego has been growing 100-150 percent a year and recently became self-sustaining. During the U.N.'s 2005 International Year of Microcredit it won first place as Rwanda's best MFI.

Prime II: A project of USAID in districts such as Bungwe, this NGO offers microcredit plus community pre-payment health insurance. Known as *Mutuelles*, the program assists women in obtaining reproductive health and family planning services on a large scale, thereby reducing membership costs, along with facilitating microcredit to the clients for income-generating purposes. Thus, they achieve more and better preventative health care, as well as economic development.

International Fund for Agricultural Development: IFAD is a large U.N.-affiliated program that has sought to strengthen rural Rwanda by channeling capital to 12 programs. Since 1981 IFAD has given out over \$120 million benefiting some 370,700 rural families for infrastructure, crop exports, dairy production and agricultural modernization. Microcredit was put in place in 1998 providing \$5.4 million to some 12,000 households. It has been a pilot project designed to increase rural microenterprise outputs, improve access to small business training and improve MFI regulations in Rwanda.

Grameen Foundation: This NGO has begun to partner with MTN Rwanda Cell to take mobile phones into rural areas of the country. MTN now provides telephone services to approximately 75 percent of the population. Grameen Foundation (2006) seeks to set up franchises with rural Rwandan women as

microentrepreneurs, giving them jobs and a secure future, while giving cheap and reliable phone service to villages.

Conflict Implications for MFIs

The stresses on microcredit during conflict can hamper potential clients in many ways, as seen in part by the preceding cases. They include emotional trauma, breakdown of the family, decline of assets, social stigma, divorce and/or abandonment by one's spouse, if not death, lack of self-esteem (especially in women), dysfunctional markets, geographic isolation because of having to flee to a refugee camp, disruption of social networks essential for transacting business, legal constraints, distrust and fear, and loss of educational skills.

These factors may all combine to exacerbate human suffering for various groups: the victims of war who survive, returnees, ex-combatants, refugees and their host governments, NGO leaders, and so on. Virtually no one is immune to the terrible fruits of war and violence.

If we were to summarize the best practices for doing microcredit in a war-torn nation like Rwanda, it seems that an MFI doing business there must be careful about risks—be able to walk the delicate line between viable borrowers who can succeed versus perpetrators of genocide (or victims) who may not be able to do well. The latter may need other types of development aid before they can operate with microcredit. After all, an MFI that tries to help everyone after a crisis may end up going under itself unless it operates efficiently and manages its risks adequately.

Another factor is the need to consider the greater costs of MFI work in post-conflict situations—items such as increased security, steeper travel costs and higher compensation for staff. It is important to partner with other NGOs and perhaps government agencies that can give the new MFI insight and the

benefits of experience. Not reinventing the wheel may save time and money, as well as help to avoid pitfalls after the conflict has subsided so that potential borrowers are not confused, assuming that microcredit is just one more handout.

This distinction should be made explicitly. I well-recall a high-ranking military leader in Asia, when I began discussing microcredit, telling me he was going to give a new TV to each family whose house had been destroyed. That was his definition of microcredit relief. When I inquired about repayments on such financing of colored televisions, he replied that recipients were too poor so there would be no payback required. In my mind this was either a humanitarian relief project, or a scheme to secure votes in the country's next elections. But it certainly did not fit the paradigm of microcredit as a reality-based finance program for building self-reliance.

This implies another critical aspect of doing microcredit during or after conflicts. The experience of embedding microcredit within a larger program of humanitarian relief after war may confuse it with grants. In other words, if an NGO is handing out food and water, providing shelter, or doing other types of aid work, and then starts to create an MFI, loans may be considered to simply be another form of aid.

The experience in East Timor after its conflict subsided is illustrative. As the civil war began to decline, the World Bank initiated a Community Empowerment Project (CEP). Along with other recovery programs, a credit component was added. It initially consisted of loans to start-up or recapitalize some 864 microenterprises at a total amount of one million dollars. Of the monies, 54 percent were given to small street stores or market stalls. Others went to livestock production, fishing and small-scale agriculture.

Research data results were a surprise because the repayment rate was a mere 31 percent. Although the evaluators suggest there were methodological problems with the study, it was still extremely low. Certainly the conflict had further worsened the already impoverished region of East Timor. By launching microcredit so early in the rebuilding process, along with shipping food, restarting schools, building homes, etc., it was confused as simply another handout (Moxham, 2004). Apparently it was interpreted as just another grant, not a loan with interest charges and full repayment required.

Making matters worse, the loans were dispensed by the regional government. With the government providing a number of other types of aid, microcredit was simply seen as one more subsidy, not part of a microbanking system. In fact, the CEP evaluators suggest it may have been better, and yielded clearer results, to dispense these small amounts of capital as tiny grants. The MFI could have packaged it as simply a phase during the transition of rebuilding, and included a "sunset clause" when the program would shift from giving out grants to only providing microfinance with repayment dates and interest fees. This approach may have reduced the ambiguity for the MFI, and clarified the role of the client: He/she would be a recipient of aid at first, and a microloan borrower later when credit was offered on a professional finance basis (ibid.).

Post-Conflict Lessons

In reviewing the cases of the above countries, along with others not mentioned, the following lessons are suggested.

Security: The safety of MFI staff, offices, and microcredit clients is essential. Steps must be taken to ensure that dangers are minimal. If tensions from the era of conflict are still problematic, microcredit should not be started, or re-started. Suggestions that may be helpful, assuming a relatively safe

environment, are 1) MFI offices be located in secure areas; 2) Money not be left in offices overnight, but deposited in regular banks; 3) Staff travel in pairs so they are less vulnerable than being alone; 4) Personnel travel routes should be varied so criminals cannot predict a pattern; 5) Staff should not wear jewelry or other items of value; 6) Village bank meetings ought to be during daytime hours only, and held in public places; 7) MFI officials should not wear uniforms or other symbols that imply they are bankers or have money.

Transition: Providing microcredit during or after conflict needs to be viewed as a long term investment, not a quick fix. Modest start-ups are preferred in order to learn what works best. Pilot projects may be the ideal way to start because they are viewed as experiments. If it does not succeed in one instance, another model or another location can be tried without losing credibility. Various cases suggest that the MFI should start slowly and grow gradually, learning as the organization develops and the client base builds. Making adjustments or tweaking the program bit by bit allows MFI staff to improve as they proceed.

Organizational Learning: Many MFIs in conflict settings need to consider bringing in ex-patriots to help get the systems functioning. To start with, more human resources are usually needed. Having native staff with expats can lead to benefits for both parties. The expats learn from natives how the local culture may receive and enjoy microcredit and what will or will not work because of cultural values and habits. Conversely, local staffers are able to quickly learn microcredit best practices from the global experience of the expats. In so doing, the MFI can move toward becoming a professional organization and increase the likelihood of success.

Client Targets: After the end of a war, some MFIs attempt to immediately offer credit to refugees who may be returning, or soldiers who seek to restart their lives. Clearly such groups have suffered. But the reality is that, in the

case of demobilized soldiers, they still usually have weapons, may be more aggressive than the average person, may harbor feelings of hate or resentment, and so forth. The end of conflict usually does not mean the disappearance of violence, threats and lawlessness. Generally speaking these people tend to lack education and/or job skills. Hence, the NGO needs to be cautious in offering credit because MFIs cannot take a chance on non-payments, late payments, complete defaults, or other risks (Doyle, 1998). Microcredit advocates need to see the contradiction between doing everything to build peace (helping returning soldiers) versus economic development.

In the case of refugees and disabled persons, the risks are not so high. A number of NGOs offer microcredit to such groups with quite successful results. Usually such individuals are highly motivated to rebuild their lives. The most common difficulty occurs when disputes arise over ownership of property, such as a house or one's land, that someone else took control of while the owners were forced to flee.

Cost Structures: Many MFIs have found that doing microcredit in conflict or Post-Conflict settings is more expensive than in more peaceful environments. This is simply due to the fact that it requires more staff, greater matters of security, and a longer time frame to become sustainable. It is worth mentioning that because of conflicts, large aid donors who are anxious to secure the peace may give even more monies to the MFI than typical amounts in the past. So doing microcredit in such settings may yield greater availability of capital than usual, thereby compensating for the higher cost structure.

Pre-Conditions for Microcredit: Brief No. 4 of the Microenterprise Best Practices group (MBP) claims that several essentials have to exist for post-conflict MFIs to succeed. First, there needs to be "an absence of chaos" such that business transactions can occur and profits are generated, while MFI

staff and clients feel relatively safe. In other words, there should be adequate security that derives from political stability. MBP suggests that it may be unrealistic to expect 100 percent nonexistence of conflict, however. In a country where there was calm in the capital but skirmishes in the jungle, one NGO starting up in Liberia simply focused its efforts in the capital city until conflicts in other areas subsided (MBP, 2001, p. 2).

Preferred Conditions: Brief No. 4 also describes several elements of so-called “preferred” conditions, meaning ideal factors for doing microcredit after conflict subsides. One is the need for a functioning commercial bank that may support the MFI—to safely secure and store microcredit funds, enable the NGO to receive monies from abroad, and so on. Without such institutions, there will be greater risks, further costs, and the need to take extra precautions. A related item is the need for macroeconomic stability so that post-conflict characteristics are manageable—foreign exchange rates, inflation, etc. Some MFIs discovered they could cope with uncertainty for an initial period by using a hard currency source for transactions. In Kosovo, for example, the Beselidhja-Zavet MFI conducted its early business in deutsche marks until the dust settled. Some institutions in Latin America used dollarization in the beginning (ibid., pp. 3-4).

Client Mindsets: As noted earlier, often after war ceases, the rush of large donor aid can overwhelm impoverished families. If MFIs soon enter the fray with microlending programs, a client mentality may arise in which loans are interpreted as yet another humanitarian donation. To counter such assumptions, the NGO must labor strenuously to differentiate its financial services from the handout mindset. It takes considerable time and energy to do so. However, charging market rate interest instead of subsidized lower rates also serves to reinforce the difference.

MFI Image: Because of devastating circumstances and the upward spike in poverty following war, various suggestions may apply. One would be the

desirability of having scaled back facilities. Rather than looking like a rich traditional bank, the emphasis should be on simplicity and modesty. The same holds for MFI vehicles. There is nothing so contradictory for me as when I see U.N. and World Bank officials pull up to scenes of starvation and desperation in a huge, luxurious Mercedes, or step from their air-conditioned Range Rover to meet impoverished refugees.

Credibility: As civil conflict subsides and outside donors begin to revive or start up microcredit services, MFIs need to enter the system as a neutral third party. If they or their donor base is seen to support one side of the conflict, or the other, they will encounter resistance, and perhaps even attack from local entities. For instance in Iraq, after the U.S. forces toppled Hussein, CHF (formerly known as the Cooperative Housing Foundation), a Maryland-based NGO, discovered quickly the need to disconnect itself from the U.S. military. The staff spent much of its first few months in Bagdad meeting with top Iraqi opinion-makers: Muslim clerics, business leaders, bankers, and appointed government officials. In each case they disavowed all connections with the so-called coalition forces. Had they not done so, they would never have succeeded in providing microcredit for the poor of that country (CHF, 2006).

Timeframe: MFIs laboring in conflict regions need to understand from the outset that their efforts will generally take years in order to succeed. Microcredit in the best of circumstances often requires 24-36 months to begin having a measurable impact. Conflict settings also mean larger amounts of money, careful planning for contingencies, worried clients, and occasional dangers for the staff. If the intent is to move quickly and scale up easily, MFI leaders will generally be disappointed. There is no quick fix.

Communication and MIS: In instances in which conflict continues, some NGOs have found it necessary to add hi tech capabilities so that if necessary, their staff can work from home. For example, Asala, the Palestinian MFI

discussed earlier, now has all its data online. If car bombs explode or roads are barricaded, its staff can go online at home or a nearby cyber café to access its office files and continue to be productive.

Efficiencies: Because of the higher costs of operating an MFI after conflict, organizational practices usually require streamlining. The challenge often is how to do more with less, while at the same time ensuring excellence. Processes should be simplified and/or streamlined to keep overhead in check. Acceleration or scaling up to achieve large numbers of borrowers is also helpful because the more clients, the more quickly the MFI may reach operational sustainability.

Microcredit in Conflict Key Points

Microcredit becomes a real adventure when trying to operate in conflict settings. I am amazed at the heroic commitment of MFI staff that bravely face real dangers every day of their lives. Organizations like CARE, Mercy Corps and World Relief have set explicit policies that they are committed to continue their work in spite of conflict and insecurity. They see microcredit as a critical element in national reconstruction. Catholic Relief Services (CRS) has gone so far as to declare that they are willing to lose everything, if need be, to labor for the empowerment of war's victims (Doyle, 1998).

Conclusions regarding microcredit in conflict and post-conflict environments suggest several key points. First, microcredit is viable in many such settings. When designed correctly, it has an important role to play in helping to enable war's victims to rebuild their lives. But it is certainly not a panacea. Other interventions are usually required such as restoring the formal economy and investing in infrastructure such as roads, electricity and clean water. There may be a need for vocational training, as well as other types of skill development.

Another concluding observation is that good MFI practices are even more essential in times of war than times of peace. This means the MFI should probably charge market rate interests, build a highly-skilled staff with multiple organizational efficiencies, work toward becoming sustainable, and operate superb portfolio quality. It will not succeed if it is confused with post-war humanitarian aid. Portfolio risks need to be assessed and strategically planned for. Client ambiguity needs to be eliminated. Delinquent clients should experience sanctions they were warned about, or the program may quickly unravel. Ground rules must be “imprinted” on all potential clients in order to ensure complete and on-time repayment rates, and the successful growth of the MFI.

Two other factors are critical for success. One is that there must clearly be a demand for microcredit. Even after war, economic rules must operate. Second, eventually legal frameworks must be established in the formal sector so as to begin to operate mainstream banks on the one hand, and government regulation and policy on the other. Both are necessary in order to protect clients and their MFIs.

If the above analysis and suggestions are implemented, post-conflict reconstruction for the poor may be successfully achieved. But it should not be confused with social and political objectives per se. Rather, microcredit must stand on its own legs as a coherent and independent financial strategy.

We now turn to the problems of doing microcredit after natural disasters.

Microcredit After Natural Disasters

Impacts from nature’s fury can be a high financial cost for the modern, developed world. But within the Third World, it is often not only a matter of money, but devastation of infrastructure and massive numbers of human injuries and deaths. For my purpose in this section, the focus will be on the

worst events, ones that I will call rapid-onset disasters such as volcanoes, earthquakes, cyclones, landslides, tsunamis and floods.

When examining a few examples in the last several years, the consequences of natural events are eye opening. Perhaps the best data source on disasters is Munich Re, a German reinsurance firm that has tracked such crises worldwide for years. Other sources include Abramovitz (2001) and Ingleton (1999).

Consider 1984, for instance, when disaster deaths worldwide totaled nearly 600,000. In 1995 there were 123 large-scale disasters, two-thirds of which befell countries in Asia. In 1997, flooding alone killed 10,914 while, in contrast, the terrorist death toll was only 221. A year later, in 1998, approximately 400 million Chinese lost their homes and/or crops when the Yangtze River flooded the region. The huge number of those victims exceeds the total U.S. population by over a hundred million.

Between 1974 and 1994 an estimated 129.5 million individuals were injured or killed during natural disasters. In the early 1990s in a four-year period global disasters cost a total of approximately \$443 billion. According to the International Monetary Fund (IMF), the costs of disasters in material losses throughout the 1990s averaged about 15 times what they did back in the 1950s, a total of some \$652 billion.

Such events are becoming more frequent, as well as costly. In 1975 there were a hundred major disasters around the globe, but in 2005 there were roughly 400. From 1985-95, an estimated 1.6 billion people were adversely impacted by disasters, in contrast to 2.6 billion over the period of 1995-2005. Disasters are also happening much faster. According to Munich Re (2006), the year of 2005 suffered the most expensive losses from disasters in modern history. Some \$210 billion in damages occurred over the 12 month period, \$90 billion of which was for insurance firm losses alone, the

most expensive ever for the industry. There were over 650 disasters, collectively causing over 100,000 deaths. These included the strongest winter windstorms ever recorded in Europe. The Caribbean and Gulf of Mexico suffered 27 tropical storms and the greatest destruction from hurricanes ever. The same year also saw 13 volcanic eruptions, along with 70 earthquakes causing heavy damage. Terrible flooding hit Mumbai, India, the home of 15 million residents, many of whom were trapped in 9 foot high water levels. A Munich Re board member declared, "All loss records were broken in 2005—which presents a huge challenge to the insurance industry world wide" (2005). What he neglected to acknowledge, most importantly, is the terrible destruction that these calamities had on millions of impoverished families, not only on giant corporations.

A few major crises of the recent past are described below.

Hanshin, Japan Earthquake: In 1995 a huge earthquake hit the region that led to over 6,000 citizens being killed in a mere 20 seconds. Rebuilding costs totaled \$443 billion.

Asian Tsunami: On December 26, 2004 in the Indian Ocean a massive tsunami traveled to the shores of 11 countries, racing through the ocean at 500 miles per hour. The destruction was shocking: approximately 250,000 individuals officially dead; thousands more still missing; 1.8 million people homeless; 516,000 people dislocated in Sri Lanka alone; 2.7 million in India were impacted; etc. The economic toll will exceed \$7 billion for rebuilding infrastructure, and homes, along with fixing agriculture and rural life for many impoverished families.

Hurricane Mitch: It occurred in late October, 1998 and wreaked havoc as the storm stalled over Central America for a week. The tragic consequences included 20,000 deaths, another 20,000 missing, and a million homeless. As mentioned early in this paper, Honduras was the hardest hit, affecting 70

percent of its infrastructure and 90 percent of its crops and animals. International assessments concluded that Honduras was set back half a century. Most of the rest of the region also experienced death and the destruction of property, especially Guatemala, El Salvador, and Nicaragua. Nearly 80 inches of rain fell, engulfing the area. Conservative assessments of the damage topped \$8.5 billion—an amount that exceeded the GDP of Honduras and Nicaragua combined.

El Salvador Earthquakes: Two years after Mitch, El Salvador was blasted by a huge 7.6 earthquake that affected two-thirds of the buildings in some cities. That was on January 13, and a second big one that hit a month afterward on February 13 took down many buildings damaged but still standing from the first shock. Experts determined that in excess of half the country was forced to live in unsafe or temporary housing. The two big quakes together killed over 1,100 individuals. The economic costs for rebuilding the nation exceeded \$3 billion, the equivalent to the entire national budget for 2001.

Caribbean Hurricanes in 2005: Last season's Atlantic and Caribbean regions suffered badly from damaged infrastructure in several countries, making it the most devastating period ever. Hurricane Stan, for example, was the eighteenth tropical storm and the eleventh hurricane of the Americas in the 2005 season. It damaged Central America and the Yucatan Peninsula of Mexico, causing 1,662 deaths, many of them in the hills above Lake Atitlan in Guatemala. Some 3,000 others were missing. During the same period in October Hurricane Wilma became a rare but powerful category five storm. It hit the Bahamas, Haiti, Jamaica, Cuba, and Florida, causing an estimated range of \$16-20 billion in damages. In western Cuba alone, over 368,000 people had to be evacuated.

Hurricane Katrina: Of course the worst economic disaster in U.S. history also occurred during that period, that of Katrina. Slamming into Louisiana in August 2005 it unfortunately caused the deaths of 1,604 people in several

states, and some 3,000 are still missing. Cities like New Orleans were flooded in water as high as 20 feet after the levees, built to safeguard the area, broke. Alabama and Mississippi were also hit by severe wind and rain. Not only did Katrina become the deadliest hurricane in the U.S. since the 1920s, but it was by far the costliest at a staggering \$115 billion. Federal disaster declarations covered 90,000 square miles, an area nearly the size of England. Three million victims were evacuated, leaving much property to be looted, even as evacuees were assaulted, in some cases. Hundreds of thousands of people were transported beyond the immediate region to other parts of the U.S. It will be years before rebuilding will be complete.

Pakistan Earthquake: The last huge disaster within the past year was the 7.6 magnitude earthquake on the borders of Pakistan, India and Afghanistan in October 2005. An estimated 87,000 people died and approximately 3 million more suffered from the collapse or heavy damage to their homes. More died in the mountain snows as winter set in, and still today tens of thousands are trying to survive in refugee camps. The U.S. has donated \$470 million, and other nations are also assisting in the process of reconstruction. But the cost estimates for rebuilding are well over \$3 billion. To make matters worse, hundreds of frightening aftershocks occurred in the weeks after the big one hit.

Venezuela 1999: Heavy La Nina rains pummeled the country's coastal mountain range along the Caribbean. Approximately two years worth of water fell in only two days, launching 15 million cubic yards of boulders, trees, mud, and other debris down the hill. It covered poor squatters who lived on the foothills in their self-made, densely-populated shanty towns. Although people in that area were used to flooding and small mudslides, this time was dramatically different. The devastation was huge—30,000 people dead and some \$2 billion in property damages.

There are many other cases of disaster that, because of lack of space and time, I will not go into. But briefly put, some of these major events include the following: the Turkey earthquake of 1999 that killed 17,000 in the northwestern region of the country, destroying four thousand buildings and 100,000 apartments; the 1998 cyclone in Gujarat, India that killed 10,000 individuals; vast forest fires that consumed parts of the Brazilian Amazon; the massive Bam earthquake in 2003 that killed upwards of 40,000 Iranians; the Indonesian fires in 1997-98 that burned 9.8 million hectares (equivalent in size to South Korea); the frequent flooding that occurs in Bangladesh which has killed millions over recent decades; the "supercyclone" of 1999 which took place in Orissa, India that obliterated 50,000 lives, and so on.

For MFIs, the "disaster cycle" stages articulated by Kirby and his colleagues (1997) help to conceptualize points at which microcredit may need to be adjusted when such conditions arise. The framework consists of an overlapping series of phases: pre-disaster prevention and planning, so as to risk-proof as much as possible; the relief stage in which humanitarian aid is provided as soon as possible; the rehabilitation phase in which efforts are made to strengthen individuals and families; the reconstruction stage wherein investment is made to rebuild damaged infrastructure; and finally, what Kirby calls the development phase in which long-term economic sustainability is begun.

With respect to MFIs in times of disaster, numerous challenges may ensue. These include such possibilities as the following: the MFI's regular functions may be disrupted such as transportation and office damages, regional infrastructure such as electricity and running water may grind to a halt, microenterprises of the clients may collapse making it hard, if not impossible, to continue repaying one's loans. In some cases microentrepreneurs and their families may suffer from physical or psychological trauma such as fear and worry, injury or even death. Alternatively, instead of hurting humans, people's homes may become destroyed, leaving them homeless. For the MFI

itself, there are often new demands that suddenly appear as disaster survivors come to need new MFI products and services such as housing loans, and so on.

Thus, whether trying to maintain an existing NGO during the crisis of a natural disaster, or attempting to establish a new operation in order to help a region recover, the complexities and challenges for operating microcredit methods are formidable.

But it seems to me that microcredit is a wonderful tool for dealing with a natural disaster and mitigating its negative effects, because it can keep the poor from slipping further down the economic ladder. If managed effectively in turbulent times, an MFI may have a huge, positive impact on those in poverty who tend mostly to be the victims of catastrophes wrought by nature.

Let us briefly report on several microcredit programs that have experience with such disasters, and learn how they coped with these problems.

MFI Cases During Disasters

The several cases include Katalysis, SEWA, and ACODEP in some detail, plus a few others that are only briefly highlighted.

Katalysis, Central America. When Hurricane Mitch slammed into the region in 1998, a huge disaster unfolded, as reported in the opening pages of this paper. The California-based NGO, Katalysis, supports 11 microcredit organizations throughout the Central American isthmus that serve 90,000 poor families. After two years of such disasters in the region, its leaders mapped a plan for future crises entitled "When Disaster Strikes" (Katalysis, 2001). The 34-page document contains strategies that include what to do before, during, and after a disaster occurs.

Getting prepared beforehand includes such things as always backing up data from office computers; taking a small percent of interest earned on loans to build a disaster fund for emergencies; holding escape drills for all office staff; preparing a disaster kit of emergency supplies such as water purification tablets, transistor radios, a generator, fuel, first-aid kits and flashlights. Specific guidelines are given under various potential disasters such as what to do in an earthquake, flood, windstorm, and so forth.

With respect to microcredit clients, the manual suggests several guidelines:

1. Suspend the collection of interest and principle for a short time, if the situation is grave.
2. If possible, allow desperate clients to withdraw savings without a penalty.
3. Do not give out new loans until the MFI has fully analyzed the crisis and its impact.
4. Maintain the organization's image as a professional financial institution. In general do not forgive outstanding loans.

The document is quite comprehensive and well-reasoned. It suggests creating a chain of communication between headquarters, field offices, and village bank group leaders. The plan emphasizes the importance of giving moral support and comfort to all, as well as the need to listen and empathize with victims whose lives have been disrupted.

Several useful office forms are developed for staff in determining the disaster's impact on outstanding balances and overall loan portfolio. Their design includes listing human deaths and/or injuries, lost productive business assets, and loans needing to be refinanced or restructured. By compiling such data at the group, branch and overall level, the MFI will quickly be able to analyze the data and determine appropriate next steps.

Another section of the handbook lays out the groundwork for steps to be taken by the Katalysis Network Secretariat in Central America: the necessity of creating a plan with the group of country partners that emphasizes more macro office planning for emergencies, facilitating communication with each partnership, synthesizing their individual reports in order to make a comprehensive analysis of the big picture, and providing financial support to affected units of the organization. Finally, the plan has a section on the roles and responsibilities of staff at the Katalysis headquarters based in Stockton, California. It emphasizes setting up overall systems, initializing field contacts, implementing those new systems, monitoring and ensuring quality control, as well as public communication with other MFIs and government authorities in the region.

All in all, the Katalysis manual is an effective game plan for future calamities. The president of the organization, Jerry Hildebrand, discussed various elements of it later at several panels and speeches presented at the Annual Microenterprise Conference, Brigham Young University (2002). He emphasized the need to refinance the loans of hardest-hit clients, the offering of new products and services (such as housing loans), the reprogramming of payment plans, savings withdrawals, and the recommendation to forgive loans of microentrepreneurs who have died.

SEWA, India: The Self-Employed Women's Association started in 1972 as a trade union and today it is the largest MFI in India with 688,743 members. Over the years, SEWA has developed a variety of financial products for the poor. While historically it provided microcredit to start/grow small enterprises, it now also offers the following catastrophe-related services: 1) Preventative loans for monsoon-proofing one's home; 2) Loans to replace or repair a roof, wall or door; 3) Loans in urban slums to improve storm drainage systems and sewage systems for protection against future disaster flooding.

In response to the deadly Gujarat earthquake in 2001, SEWA established a more comprehensive rehabilitation program for its clients' recovery. It organized and sent out teams of staff relief workers to check on clients, discover their needs, and so on (SEWA, 2006). Ultimately, it found that 16,934 houses of clients from 162 villages were completely destroyed. Another 12,338 needed home restoration funding for which the MFI ramped up and began to offer. SEWA also started to provide emergency resources such as blankets, medical support, water and food to its members. SEWA's analysis of needs was presented to India government officials and, because of its credibility, regional and national funding was provided to its clients (ibid). Recently SEWA's monsoon and disaster-proofing proposal *Paaki Bheeth* was accepted by the government to build housing for 1,300 families who became disaster victims.

ACODEP, Nicaragua: *Asociacion de Consultores para el Desarrollo de la Pequena, Mediana y Microempresa* was established in 1989 by graduates of universities in Nicaragua to provide loans, savings and consulting to microentrepreneurs. ACODEP is currently the largest MFI in the country, focusing primarily on the urban poor, serving some 16,000 clients. In response to multiple disasters in one of the poorest countries in Latin America, this MFI launched a program called "*mi vivienda*" (my home). After Hurricane Mitch, for example, it gave out over 2,000 such loans to clients for rebuilding their residences. Today its focus is on poor families, especially those in disaster-prone locations that may be more subject to quakes and floods than other regions of the country.

ACODEP's monies are given to renovate, reconstruct, or improve damaged homes. Mostly it pays for building supplies, with the family contributing its own labor as "sweat equity." However, in some cases, funds may be used to connect the house to community infrastructure such as water pipes, electrical lines, and so on. At times, ACODEP has even allowed *mi vivienda* borrowers to relocate and build a new house away from hazard-prone areas. It also

now offers *credisalud* for health coverage and a second financial product for the home, *credihogar* (ACODEP, 2006). ACODEP has given out over 2,000 such loans to clients for rebuilding.

The listings below offer a brief reporting of additional MFIs and show the range of disaster relief services and products being offered around the globe:

Grameen Bank, Bangladesh: Grameen has a housing rehabilitation program that not only gives loans for house reconstruction, but 5,000 additional *taka* if one's home was damaged by a natural disaster. After a series of cyclones in the early 1990s Grameen staff went out in small boats to move people to emergency shelters and give them needed medicine and food, even before the Bangladeshi government and global aid organizations had begun to operate (Bornstein, 1996). Later, when the calamitous floods of 1998 spread over two-thirds of the country, they impacted more than 30 million people. About half a million homes were lost, as well as over 14,000 schools and 15,000 kilometers of roadways. In terms of agriculture, approximately 27 percent of all vegetables and 36 percent of rice crops growing throughout Bangladesh were eliminated, along with over 600,000 farm animals. More than 1,100 people died in the tragedy.

Among MFIs in the country, reports concluded that half of all microcredit clients suffered impacts, 75 percent of them losing at least one income-generating project, and 62 percent lost their homes. In the case of Grameen clients, the NGO gave out clothing and water purification tablets, as well as food and first-aid supplies.

Later, the Grameen Krishi Foundation gave out hundreds of thousands of seeds for replanting wheat, potatoes, and green vegetables. The bank itself also quickly developed disaster response mechanisms such as releasing client savings, rescheduling people's loans, and issuing new housing rehabilitation and other emergency loans (Hasan, 1998).

ENLACE, El Salvador: ENLACE launched a loan program after the 2001 earthquakes, with accounts ranging from approximately \$100 to \$2,000 for renovation and/or new construction over a time frame that ranged from 6 months up to 7 years. ENLACE had over 10,000 clients organized into some five hundred communal bank groups. It obtained financial support from Catholic Relief Services (CRS) for immediate humanitarian aid, and it cancelled all debt of those clients who suffered the most by classifying those monies as “unrecoverable.” ENLACE provided debt restructuring for microentrepreneurs who sustained partial losses of assets and sales, but who, with an adjustment in their debt structure, could get up and going again (ENLACE, 2006).

Trickle-Up, Philippines: Trickle-Up began offering loan products as safety nets after the volcanic eruption of Mount Pinatubo in 1992, as well as the earthquake of 1990, and various typhoons that have struck the 7,000 islands of the nation. Microcredit clients could qualify for cash grants of \$50-\$100 that did not need to be repaid if they had a solid credit listing with the MFI.

Proshika, Bangladesh: Proshika is an NGO that was founded as a humanitarian aid nonprofit in the 1970s. During its inception it was motivated to give cash subsidies to victims of disaster. Then it shifted into becoming an MFI in the 1990s. Proshika also offers loans with no interest charges for rehabilitation after disasters strike, so its microentrepreneurs can quickly replenish assets and re-start income-generating products. Proshika gave out nearly \$4 million after flooding in 1997, and its one-time repayments were approximately 68 percent (Proshika, 2006).

Over time, Proshika has installed a series of disaster insurance products that consist of a Participatory Livestock Cooperation Fund that reimburses clients for the sudden death of farm animals such as goats, cattle and chickens. For human loss, a Proshika Savings Scheme was also established. If disaster

strikes and clients' homes are lost, PSS reimburses for double the amount of their savings account with Proshika, and the savings deposit remains untouched for future needs. When and if a client dies in a disaster, one's family receives the total of their savings multiplied by the number of years the account has been operational.

Fondo de Credito Comunitario (FCC), Mozambique: The most devastating floods in over a half a century hit the impoverished, Portuguese-speaking nation in 2000. Having no humanitarian NGOs in the region, FCC felt responsible to provide whatever aid it could. Sponsored since 1993 by World Relief, the MFI had become the largest credit organization in Mozambique. Loans of a few hundred dollars typically had to be repaid over a 4-month period. But inexperienced and overwhelmed by the cyclone's devastation, FCC's operation ground to a halt for several months. Most of its microentrepreneurs were forced from their homes for 8-10 weeks, and many more weeks were required to get people back in their homes, clean them up and repair them, all before microenterprise transactions could begin once again.

World Relief helped rescue the program by taking in helicopters, hauling people, office supplies and other necessities to keep FCC functioning. Eventually, small cash grants were given to clientele with which individuals could then pay off loan balances or restructure their financing. Most communal bank groups elected to pay their outstanding debt and start over, thereby retaining their positive credit history of nearly 100 percent on time and full repayments.

Microcredit Learning From Disasters

The preceding mini-cases suggest the challenges arising from natural catastrophes. The experiences are varied, depending on the type of disaster

and the problems it may create for the poor, as well as the size and strength of the MFI.

Listing some of the main conclusions and lessons from such experiences follows as I summarize the findings from various sources: Microlinks (1998-2000), Nagarajan (1998), Pantoja (2002), as well as the MFI experiences described above.

Pre-Crises Preparation:

- Pre-disaster planning to identify potential crises, conducting risk assessments, and calculating necessary liquidity;
- Establishing an emergency disaster fund with sufficient resources to cope with potential costs;
- Copying and storing elsewhere all financial records in another, safer setting;
- Creating a handbook, like that of Katalysis, with plans, policies and procedures for when emergencies ensue;
- Identifying a disaster mitigation team of key individuals who are trained and ready to effectively manage actions to be taken;
- Establishing clear policies, terms and conditions for disbursement of disaster funds;
- Training all staff in crises response procedures and guidelines;
- Building liaisons with other NGOs and government officials in the region;
- Developing a viable communication system that will work under various disaster conditions;
- Creating a mutual understanding with commercial banks and major donors so that needed emergency capital may be quickly accessed when the need arises;
- Building an early warning system to sound the call to action;
- Meeting with MFI clients to prepare them in advance;
- Fostering structurally-sound client housing;
- Identifying regional government relief services to be sought as needed;

- Encouraging health training and vaccination of staff and client families to mitigate potential diseases;
- Planning for potential insurance products—for clients, homes, animals, and microenterprises.

During the Disaster Responses:

Depending on an availability of emergency aid from government/NGO corporate sources, the MFI may need to supply services and material to affected clients. MFI humanitarian relief may consist of any or all of the following:

- Taking in clean drinking water;
- Providing food (grains and/or prepared foods if cooking is not possible);
- Relocating families to safe, but temporary shelter;
- Handing out emergency supplies such as first-aid kits, matches and candles, etc;
- Lifting livestock to safety;
- Transporting people who are seriously wounded to medical clinics/hospitals;
- Sending medical teams into affected areas;
- Providing veterinary services to animals;
- Transporting deceased family members to burial grounds;
- Helping clients locate missing relatives;
- Suspending MFI banking operations during the first days or weeks of the crises;
- Conducting assessments of disaster impacts on: clients, clients' families, MFI property, animals, community;
- Distributing small cash advances to good clients who may need capital to tide them over;
- Communicating to all clients that the MFI's emergency relief efforts are temporary so that mindsets of dependency and welfare do not develop;
- Not mixing allocated funds of microcredit monies with capital to be used for relief.

Post-Disaster Actions:

As the crisis subsides, whether over days, weeks or months, microcredit organizations need to shift their attention from humanitarian emergency relief to the challenges of getting their MFI operational systems up and functioning again. It should be noted that these problems often interact and/or reinforce the complexity of problems. In order to succeed, the following list of potential actions should be considered:

- Assessing liquidity needs and determining how to report to clients who want to deplete their savings or stop loan payments;
- Determining whether or not to allow clients to temporarily halt participation in compulsory savings programs, if they exist;
- Evaluating whether or not the giving of emergency relief loans will be possible;
- Estimating the number or percentage of clients that will seek cash advances on their savings accounts;
- Seeking grants and reimbursements from government and aid NGOs for the extra assistance the MFI has provided;
- Finding new sources of capital to better cope with liquidity shortages—perhaps from commercial banks or large donors.

It should be noted that the MFI will need to manage carefully the complex details of such matters as decision-making, ownership, terms and conditions of deposits, right of access to savings, and cash advances. There will always be a need to determine which of those are the prerogatives of the village bank group of microentrepreneurs versus the MFI's management team. If disasters usually are rare and relatively minor, and the MFI is large and well-established, it may be able to manage through the above process with relative ease. But if the region is subject to chronic disasters of major and long-term proportions, and/or the MFI is relatively new or small, the capacity to cope will require extensive and on-going preparations.

Microcredit in Other Difficult Settings

Beyond conflicts and natural disasters, there are other sources of stress and strain that may negatively impact the practice of microcredit. These factors differ from the previous sections of this paper because they are usually not sudden events, as is the case of most natural disasters we have discussed above—earthquakes, floods, tsunamis, cyclones, and so on. On the other hand, these occurrences are usually not human-caused, such as wars of invasion or civil conflicts within a country which we also reviewed earlier. Instead, by “other” I mean difficulties that tend to occur slowly, often barely perceptible at the outset. At times they are referred to as slow-onset crises. But their potential for causing danger, death and other difficulties is extensive, especially in the Third World. Examples of this include droughts, desertification, insect infestations, fires, disease, global warming because of climate changes, technological and industrial accidents, and so on.

Due to this paper’s constraints of space and time, an in-depth coverage of such matters is not possible. However, a few illustrations are briefly listed below, followed later by methodologies used by some MFIs to have coped with, or are presently dealing with, such exigencies.

Wildfires Fires claim millions of acres annually around the globe and, at times, can greatly disrupt family economic well-being. In the last several years, many homes have been burned in industrialized countries like the U.S. and Australia. But fires take a far bigger toll in the Third World. According to Munich Re (2006), the out-of-control fires during 2005 were the worst in decades, most of them happening in developing nations.

For instance, the former Suharto government of Indonesia illegally allowed palm oil and lumber industrialists to burn millions of acres so they could

expand their operations in the country during 1997-1998. Peasant settlements were burned as the fires raged out of control. Smoke filled the air for hundreds of miles, closing a number of airports, schools and industries across Asia. Economic costs totaled over \$9 billion. The health and financial consequences had a terrible impact on NGOs working to aid the poor in Indonesia (Barber and Schweithelm, 2000). Similar suffering has occurred by the spread of gigantic fires in Brazil's Amazonian Basin that have caused the indigenous poor to flee their villages and farms that were burned, as well as their microenterprises that were lost.

Global Warming: Climate change has been an increasing matter of concern since the 1992 world environmental summit held in Rio de Janeiro. Rising temperatures of the earth's atmosphere are a result of higher amounts of greenhouse gasses in the earth's ozone layer that become trapped by pollution. Researchers at the National Academy of Science, academics from schools like the University of Massachusetts, and growing numbers of politicians such as former U.S. Vice-President, Al Gore, show evidence that the phenomenon is real, and that it is affecting everything from melting Arctic ice to rising coastal tides, from warming ocean temperatures to the increase of hurricanes (Daley, 2006). For poor families around the globe, it is often the regional effects of a warming climate that impacts their lives in the informal economy, not so much global trends in general. For instance, those who struggle with eroding coastal areas in Asia have needed to be assisted by NGOs that not only issue microenterprise credit, but loans for building higher, stronger stilts for the shanties of the masses trying to survive along rural shorelines.

Disease: Continuous ill health is another explanation as to why poor microentrepreneurs stay poor. Over recent decades, many community health NGOs have focused on improving women's reproductive health, prenatal care, and infant well-being. Others have emphasized childhood disease prevention methods, including vaccinations against polio, which was

eliminated globally for a time, but is now again on the rise in Nigeria, Somalia, Indonesia and Yemen. Over the next 3 years some \$1.2 billion will be needed to prevent and/or control polio's spread alone.

The challenges that disease raises for MFIs and their clients are formidable. Drawing largely on Vallanjon's (2002) edited report for the World Health Organization, we take an abbreviated look at current trends. Two billion people, mostly the poor, are carriers of tuberculosis, some 9 million of whom develop active TB annually. Nearly 1.7 million individuals die of the disease every year. Each day some 3,000 others die of malaria, which totals a million deaths per year. Hundreds of millions more suffer these diseases once or more times annually. Thankfully, some childhood diseases such as measles and diarrhea have been largely reduced in Africa over the past 25 years. Yet beyond these huge traditional diseases, there are other newer, smaller illnesses arising in recent years: Cholera in Angola (43,000 victims), pneumonic plague in the Congo, Avian flu in Indonesia, SARS (Severe Acute Respiratory Syndrome) in China, and so on.

Naturally there are other types of disease affecting societies beyond those mentioned above that are usually transmitted from animals to humans, or humans to humans. These others include cancer (7 million deaths annually), cardiovascular disease such as strokes and heart attacks (12 million deaths per year), diabetes (171 million patients worldwide), abuse of drugs, alcohol and tobacco, and so forth (Vallanjon, 2002).

But by far the worst pandemic over the past several decades has been the horrific problem of HIV/AIDS. Transmitted by bodily fluids from one person to another, some 92 percent of victims reside in the Third World, where AIDS education awareness projects, prevention campaigns, and obtaining pharmaceutical drugs are not as widespread as in industrialized nations. Today there are more than 36 million carriers globally. HIV/AIDS cases grow by 5.3 million per year, and an estimated 3 million patients die during the

same period. Tragically, some 14 million women of child bearing age are infected with HIV, the virus that leads to AIDS, making the births of HIV children likely. All told, some 25 million individuals have died of AIDS, 4.3 million of whom were children. In the Third World today there are some 13 million AIDS orphans (WHO, 2002).

Other contemporary health problems in the Third World have arisen in the past several years, new high potential growth epidemics such as the ebola virus which first came from African monkeys, new forms of encephalitis, Mad Cow disease, the West Nile virus, Rift Valley fever, and others. They are not well understood, and therefore lack effective treatment. Scientists and medical experts are racing with their research studies to better understand these new problems, their causes, modes of transmission, and potential cures.

To understand the uses and treatments for many of the above-mentioned health problems, global organizations have been established to treat, educate, vaccinate or otherwise combat them: The U.N.'s World Health Organization (WHO), UNICEF, the Pan American Health Organization (PAHO), the International Labor Office (ILO), and many others, including national and local government agencies. Also, private foundations have been established within countries and regions, along with thousands of NGOs that seek primarily to improve the physical well-being of the Third World poor. Many MFIs are now seeking to partner with such groups to fight disease and improve the health of their client base, both to reduce suffering and to also strengthen their organizations so they can survive such stress.

The growing assumption of microcredit groups is that by controlling, if not eliminating the spread of disease, we will be able to tear down obstacles to reducing poverty, and by doing so, increase the availability of good food, access to clean water, and rising family incomes. As chronic disease is reduced, economic self-reliance may be secured.

Even small NGOs I have worked with in recent years have had positive and significant health impacts, along with their microcredit programs. For instance, the Ouelessebougou-Utah Alliance (OUA) has worked for two decades in a cluster of 72 villages in Southern Mali where we have established a village bank. I trained graduate students from Brigham Young University, Harvard, and the University of Utah who then moved to Mali to live in the villages and begin microcredit (Woodworth, 1997). We at the alliance have also set up indigenous pharmacies, trained over a hundred healthcare workers, given prenatal education courses and conducted demonstration projects for pregnant village women taught by Utah midwives. OUA also conducted HIV/AIDS education, provided millions of dollars in donated pharmaceutical supplies, offered medical surgeries by U.S. physicians on health expeditions to reconstruct cleft palates and club feet, sent teams of U.S. dentists who performed needed teeth repairs, and so forth (OUA, 2006). All these small, grassroots health programs have had a significant impact on the microcredit and other economic development efforts of the 36,000 villagers in that region. And OUA is simply one illustration of thousands of MFIs that link with NGO healthcare projects around the globe.

Drought: Another insidious factor impacting MFIs and their clients is the growing arid regions of North Africa caused by desertification. Years of drought have pushed the Sahara's sands southward, driving off wildlife, killing vegetation, and making the survival of indigenous people more difficult. Not a sudden, shocking disaster like those covered earlier in this paper, drought creeps slowly and almost imperceptibly. But it gradually diminishes the economy, forces millions of the poor to relocate, mostly into refugee camps. It delays Third World development, causes great suffering and significant economic losses. According to the World Meteorological Organization, record-breaking droughts have arisen not only in Africa but in the Middle East, and Central Asia. In Africa's case, some 25 million people are currently at risk of famine in the Horn of Africa alone, and millions more

suffer the effects of drought world wide (Obasi, 2002). Today this difficulty is becoming a reality to millions who suffer in places like Darfur of Sudan, and the growing deserts of Ethiopia and Somalia. Even the famed Masai herdsmen of Kenya struggle. They have lost millions of cattle from thirst already, and villages are in decline from the effects of on-going drought.

In the past several years, droughts have grown significantly in Europe. These, along with rising heat waves, have resulted in thousands of deaths in modern industrialized settings. Meanwhile, during the same period, Brazil's giant Amazon region, much of which used to be swampland, has lost millions of acres of foliage and rural crops as the swamps receded and rivers dried up.

Technological Catastrophes: These occur in industrialized nations such as the 1979 Three Mile Island nuclear power station accident in the U.S., which released radioactivity into the Pennsylvania air. Likewise, the Chernobyl nuclear plant accident in Ukraine in 1986 caused the death of dozens and the maiming of many more victims. Many suffered from radiation, thermal burns, thyroid cancer, and other problems as the toxic material rose into the atmosphere and took its toll on poor Soviet families. Chernobyl's ripple effects are still causing cancer problems today. More recently, numerous mining accidents in China and other developing nations have killed or maimed thousands of worker victims.

Perhaps the worst technological catastrophe in the Third World was the Bhopal, India chemical plant explosion in 1984. The U.S. giant, Union Carbide, released over 40 tons of toxic gas into the neighborhoods around the facility where a million slum-dwellers resided. Approximately 135,000 people had to be evacuated, thousands of whom were badly wounded. Some 8,000 died immediately or in the ensuing days, and double that number has suffered agonizing death since then. Now some two decades later, an estimated half million individuals in India who were exposed to the

dangerous gases, have had to deal with respiratory disease, pregnancy problems among women and babies who were born to surviving victims, chromosomal abnormalities, and so on (MacKenzie, 2002).

MFI Responses to Slow Onset Difficulties

As with the problems of conflict and fast-occurring natural disasters described earlier, the examples above of slow-moving problems in other settings negatively impact the poor, their microenterprises, and the MFIs that support them. But innovations for retaining or growing microcredit are being attempted.

One interesting new application is that of drought and famine insurance. It attempts to counter donor fatigue as the world seems to tire of witnessing global crises month after month on CNN and other sources. Perhaps there is a kind of desensitization that also sets in. Regardless, the solicitation of donor monies is at times difficult to succeed in doing. Aid organizations that increasingly have had to struggle to raise needed cash for every new crisis are beginning to experiment with new funding mechanisms.

The World Food Program took out the first drought insurance policy from a French insurance firm, Axa Re, in 2000. By paying premiums of approximately a million dollars, nearly \$6 billion of insurance will compensate poor Ethiopian farmers if drought causes their crops to fail. Experts from the World Bank are now advocating this idea as a new tool to protect and perhaps expand microloan banking, according to the Swiss State Secretariat for Economic Affairs. By doing these things, insurance for poor microentrepreneurs and their MFIs shifts the local risks to be spread around international capital markets based on weather changes. These tools are also catching on in Malawi, Ukraine and Nicaragua (Balzli and Steinvoth, 2006).

MFIs are also laboring to cope with the difficult settings that occur because of poor health. For example, a Ugandan NGO, FOCCAS, incorporates nutrition and other health training modules into its weekly microentrepreneur group meetings (Dunford, 1999).

HIV/AIDS, the worst scourge arising from human disease, has led to a variety of microcredit attempts to help clients cope (Parker, 2000; UNAIDS, 2000). To illustrate, FINCA uses its weekly repayment meetings of village banking groups to have health NGOs conduct AIDS prevention education. Such partnerships are win-win situations. FINCA itself benefits because AIDS training arms its clients with greater knowledge about how to mitigate the disease rate. Healthier clients mean stronger MFIs, and over time, reduced poverty. They can ultimately lead to reduced portfolio losses because fewer clients may be absent or drop out due to illness, or default due to death. At the same time, health NGOs gain access to FINCA women's groups, making their programs more accessible to organized communities, and in turn, this enables anti-AIDS programs to become less costly and more efficient.

The high prevalence of various diseases can also support MFIs in inventing and launching new microfinance products such as credit insurance and/or funeral insurance where there are large numbers of the poor who may be afflicted (Roth, 2000). Of course, the MFI that has a more diverse portfolio of products and services is less likely to suffer when the scourge of malaria or AIDS hits a given community.

But it may also make certain aspects of an MFI's operations more complicated. For example, disease-prevention training will usually require higher costs to educate the organization's staff. It may take more time to explain and market such services to the poor. Also, it will, at times, jeopardize the organization's objectives for reaching financial and operational sustainability.

New MFI Mechanisms in Other Settings

The items below suggest other innovative MFI tools for coping in difficult settings. They may be more applicable in some cases, such as wildfire or drought, than in other instances, such as disease or technological disruptions of a local economy. But for MFIs that seek new ideas, several of these might be of use:

- Insurance policies may offer emergency loan collateral, as in the case of fires or droughts.
- Compulsory savings could be required from all microentrepreneurs so that if an insect infestation occurs, such as a locust plague that destroys one's crops, default on one's microloan may be lessened, especially if the amount of savings is significant. Thus, poor peasants would at least have their own resources to fall back on. This also would protect the MFI's portfolio.
- Built-in loan flexibility is another option for coping with difficult settings. This might take the pressure off of clients who, because of a crisis, do not want to move up to the next cycle of a larger loan, with its resulting pressures. Instead, one could take a rest or a break, and then re-enter the microcredit system when feeling ready, without pressure to take on loans the individual may not be able to afford.
- New insurance tools may be designed and implemented by the MFI, as mentioned earlier: Life insurance, health insurance, credit insurance, funeral insurance, and so on. For instance, Opportunity International now requires its African clients to take out two low cost products: Mandatory loan insurance, and also a mandatory death benefit insurance. It seems that mutually beneficial outcomes result for both parties.
- Monitoring of slow, creeping difficulties such as drought should be ongoing, carried out by the MFI in collaborating with data from local governments and larger aid nonprofits. Obtaining proxy indicators as the problem worsens, tracking the number of client dropouts,

evaluating solidarity group meeting attendance, absences and clients' reasons for missing such events can serve as early warning signs of escalation, as well as the likelihood of future crises.

- Conducting exit interviews, and tracking arrears and defaults may also gauge the impact of such problems as insect infestations, crop failure, and so forth.
- MFI staffing procedures should include educating employees about disease. It may be useful to provide them with HIV/AIDS education, and insurance benefits—health, life, funeral, and so forth.
- Group savings may be promoted to create a special collective account that provides for orphans of village bank members who die from illness, wildfires, or drought.

In sum, the problems of impoverished families who struggle against the impacts of other global problems, beyond war and/or rapid disasters, are extensive. But microcredit practitioners can play significant roles in mitigating the damage caused by wildfire, drought, disease, and environmental shifts such as global warming. Core actions for dealing with these problems include the need for new services and products, the ability to track evolving difficulties over time, the design of new methods for delivering the MFI's products, and building linkages with other aid organizations.

In regions of perpetual problems, such as sub-Saharan Africa, an NGO's success will depend not only on providing microcredit, but on also operating additional strategies for prevention, or at least mitigation, in facing such challenges to one's survival.

MFIs under these difficult conditions must reinvent themselves to more effectively cope with problems and serve the changing needs of their clients, as well as be able to survive as institutions. In the training I conduct with MFIs around the world, I always emphasize the need to become proactive.

Anticipatory problem-solving is one of the most critical capabilities an NGO should develop.

It may be important to add one more footnote by way of warning: MFIs should not become stretched too thin in the face of a crisis environment, with huge public needs and demands, and with an NGO's limited resources. An attempt to take on each and every crisis is simply not doable. Constraints must be recognized, priorities should be established, and then decisions may be reached within a viable framework. No MFI can do everything to prepare for or fully combat difficult settings, but each can and must do something to lessen the pain of the poor and alleviate human suffering.

Conclusions

The major thrust of this paper focuses on the three-pronged challenges of doing microcredit--first in conflict settings, second, in circumstances of natural disaster, and third, in other difficult settings. Each classification of difficulties must be confronted by MFIs within their region as the rates of human wars and aggression, on one hand, as well as rapid, natural disasters and/or slow-moving other catastrophes, seem to be likely. I would suggest that MFIs could benefit greatly by consulting each other about dealing with some of the issues in this paper, benefiting from their experience, and creating learning organizations in doing so. They should also draw on the existing literature, such as that of CGAP and others, where experts have written about these challenges. Perhaps MFIs which operate in areas of on-going conflicts such as in Colombia, the Middle East, and parts of Africa could form a kind of crisis network for exchanging experiences and sharing best practices.

Clearly more research is needed on the complexities of managing MFIs in times of conflict and catastrophe. How to best prepare beforehand, ways of coping during such problems, and strategies for rising above difficult

conditions—all cry out for better data. Because of the heavy responsibilities practitioners have in operating their NGOs, others, such as universities, governments, and think tanks need to fund studies and channel scholars to address these matters. The predicted trends over the coming years seem to portend more disasters that will do greater damage and generate rising costs. So, too with human disputes. In spite of the euphoria surrounding the end of the cold war, there appear to be increasing tensions among nations, and within them. The microcredit movement will benefit greatly from well-conceived field research that is relevant to these challenges and helps us understand how to better prepare for future difficulties.

Insightful policies and the formulation and implementation of successful MFI strategies must be informed by good data. We must come to understand the best practices for confronting tough realities. Our task is to build the organizational capabilities of our microcredit NGOs so as to produce economic self-reliance among poor families and develop long-term, sustainable communities around the globe.

To reframe the words of U.S. President George W. Bush, conflict, natural disasters, and other difficulties are the new “Axis of Evil.” They foster poverty, decimate the quality of human life, destroy communities, and degrade the earth itself.

But microcredit holds the promise of becoming a countervailing force that pushes back the constant specter of poverty. While MFIs alone cannot fully stop the flow of crises in today’s world, they hold much promise in lessening their impacts. Indeed, much has already been achieved by microcredit practitioners to diminish the devastation, and to accelerate the processes of recovery. As we learn more and more about best practices and the use of innovative strategies and tools, microcredit will more fully empower impoverished families around the world, even in troubling circumstances.

We should not wait for things to become better. We must use our microcredit systems to *make* things better. To me, this is the great hope and promise of microcredit—to achieve success under the worst and most unlikely of such conditions. As microcredit practitioners, we must walk along village pathways in solidarity with the Third World poor. That is our mission. We can do nothing less.

Acknowledgements

The author appreciates the following individuals for their helpful feedback on earlier drafts of this paper: Lisa Jones of the University of North Carolina, Shad Morris of MIT, Kaye Hannah of BYU, and Shon Hiatt of Cornell University.

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