Network Development Services

Technical NOTE

No. 4

THE SEEP NETWORK

October 2006

The Role of Microfinance Networks in Challenging Environments

Abstract

This technical note explores how regional and national microfinance networks, also called microfinance associations (MFAs), can help to strengthen the microfinance industry in challenging environments-those affected by conflict or natural disaster. It identifies and discusses ten of the most important roles of networks in challenging environments: serving as an information clearinghouse; disseminating and promoting best practices; attracting and encouraging coordination among donors; bringing disparate players together; facilitating linkages between MFIs and other development organizations; providing a space for lateral learning; providing or facilitating access to training for MFIs; fostering transparency through performance monitoring; advocating for an enabling policy environment; and encouraging a long-term outlook in the industry. This technical note uses the experiences of MFIs and microfinance networks in Afghanistan, Iraq, Haiti, Sierra Leone, and other countries affected by conflict or natural disaster to build a picture of the role of networks in challenging environments. It outlines how networks are established in such situations, and explores how networks in these environments can improve the microfinance industry.

Introduction

Operating a sustainable, growing microfinance institution (MFI) is a difficult task in a stable environment. When conflict or disaster predominates, it becomes even more challenging. MFIs in a crisis environment may feel isolated, unaware of best practices and unable to access information on the local microfinance industry, on trends in the field, or on security concerns.

Conflict, natural disasters and poverty are often deeply intertwined. According to the World Bank, 16 of the 20 poorest countries in the world have undergone a major conflict in the past fifteen years. Likewise, 95% of deaths due to natural disasters occur in developing countries.[1] The microfinance industry has been similarly affected by, and has had to adapt to, conflict and disaster in recent decades. The SEEP Progress Note "Conflict and Post-Conflict Environments: Ten Short Lessons to Make Microfinance Work" identifies ten steps MFIs can take for successful microfinance in conflict-affected situations. These include focusing on client and staff security, working with trusted institutions, adjusting products to fit clients' needs, keeping microfinance and relief activities separate, ensuring access to information, developing human resources, and maintaining portfolio quality.[2] Nagarajan (2004) identifies lessons learned from experience in conflict-affected environments: microfinance can be successful in post-conflict environments, best practices are achievable and essential for sustainability, and the security of staff and of funds is crucial.[3] Sustainability is possible for conflict-affected MFIs, though difficult because of high salary, start-up, and security costs.

1. World Bank: Conflict Prevention and Reconstruction website and Hazard Risk Management websites, 2006.

2. Bruett, Tillman, Dan Norell and Maria Stephens, eds. 2004. "Conflict and Post-Conflict Environments: Ten Short Lessons to Make Microfinance Work." [Progress Note No. 5] Washington, DC: The SEEP Network.

3. Nagarajan, Geetha. 2004. "Microfinance Research in Conflict Environments: State of the Art and Way Forward." [MicroNote 2] Washington, DC: USAID.

Less research has been conducted on microfinance in disaster-affected areas, but the primary lesson is the same. Viable, best-practices microfinance is possible, and MFIs must avoid highly subsidized lending or unenforced repayment. Yet MFIs in both conflict- and disaster-affected environments face security challenges, resource constraints, information gaps and other hurdles. Balancing such challenges with the demands of best-practices microfinance can be difficult, particularly in environments inundated with relief subsidies supporting credit.

Microfinance networks, also called microfinance associations (MFAs), can help MFIs to overcome these hurdles in conflict- and disaster-affected environments.[4] Networks provide support for their members in any situation, but their position becomes more important in a context affected by crisis. They can help bring member MFIs together, providing moral support and alleviating the isolation and stress associated with operating in a crisis environment. Networks have the potential to be the link to and the voice of the industry, providing capacity building, disseminating information, and advocating for an enabling policy environment.

This technical note uses the experiences of MFIs and microfinance networks in Afghanistan, Iraq, Haiti, Sierra Leone, and other countries in or emerging from conflict or natural disaster to build a picture of the network's role in challenging environments. It outlines how networks are established in such situations, and explores how networks in these environments can improve the microfinance industry.

Microfinance in Challenging Environments

In Afghanistan...years of war [have] left this country with a very poor economy, no education standards and hundreds of social problems.

-Ahmad Jawed Karimi, then-Coordinator, Afghanistan Microfinance Association (AMA)

The USAID Microenterprise Best Practices Technical Brief No. 5, "Searching for Difference: Microfinance Following Conflict vs. Other Environments," compares and contrasts microfinance in challenging environments and in normal situations.[5] The brief lists the common features of successful MFIs in any situation: offering in-demand services, reducing unit costs, encouraging repayment, and charging appropriate interest and fees. The author stresses that MFIs in post-conflict environments do not have free license to operate in an unsustainable manner. However, the brief also outlines the major constraints of microfinance in crisis-affected environments, including human resources limitations (in staff as well as board members), security issues for staff and clients, and a longer road to financial sustainability.

Following are some of the most pressing issues for MFIs in challenging environments:

- Security is a major concern for clients and staff, particularly when money is present.
- Conflict leads to death, refugees and a severely disrupted educational system, which cause a deficit in human resources.
- Economic markets may function poorly, leading to fewer economic opportunities.
- Microfinance may be new to the country, leading to a perception of microfinance as grants or relief money.
- Infrastructure, including telecommunications, may be damaged or nonexistent.
- Mobile populations, such as in refugee camps, and a lack of information make client assessment more difficult and less transparent.
- Some microfinance providers may not be familiar with best practices, leading to distortions in the market. This may also lead to problems for clients as the crisis ends and casual microfinance providers close their doors.
- Some donors may not understand microfinance best practices or sustainable manners of supporting financial services.
- MFIs in high-risk areas, or those with little experience, may only offer a very small range of products with little innovation.
- There may be little or no appropriate regulation of microfinance provision, as the government focuses on other priorities.

4.The SEEP Network defines microfinance associations as "member-based associations with a membership primarily made up of independent microfinance institutions (MFIs) operating in similar markets. Members can also include subnational networks (typically apex institutions or other federations of financial service providers) and local affiliates of international operating alliances" (SEEP Network 2005). These networks are national or regional in scope, and should be differentiated from worldwide networks of affiliated MFIs.

5. Larson, Dave. 2001. "Searching for Differences: Microfinance Following Conflict vs. Other Environments." [Technical Tool Brief No. 5]. Washington, DC: USAID/DAI Microenterprise Best Practices Project.

- In areas with ongoing or 'undulating' conflict, MFIs must determine ways to predict the cycle of conflict, and hedge their risks accordingly.

- In some areas, MFIs fear unwittingly financing contraband trade or terrorist activities.

These constraints lead to difficult questions for microfinance providers. For example, clients may need relief services in addition to financial services. Due to higher costs, financial sustainability will almost certainly be more difficult. MFIs who were present in a country before a conflict or disaster, and who continue to operate during and after these events, must themselves recover and restabilize.

The Role of the Network in Challenging Environments

Networks, member-driven associations of microfinance providers, can help their members to deal with the pressing issues outlined above. Microfinance networks can advance best practices, both among their member MFIs and for the industry as a whole. They can serve as both the voice and the support system of their industries. Networks can also promote learning among practitioners, and facilitate the advancement of the industry as a whole. The table below lists the general roles of microfinance networks. All are beneficial to the industry, but in situations predominated by conflict or disaster, some become more crucial than others.

Networks are important actors in any microfinance industry, but have the potential to be particularly important in crisis-affected environments. In challenging environments, some network services become even more crucial. Issues like a lack of information, uneven application of best practices, uncoordinated donor intervention, and an inappropriate policy environment are among the most pressing problems in such environments. While these issues are present in many normal situations, they tend to be exacerbated in crisis environments.

Security issues, a pervasive relief mentality and governments preoccupied by other problems make it more difficult for microfinance providers and donors to focus on these issues -- but if the industry is to grow and provide financial services in a sustainable manner, it must focus on capacity building, best practices, and an enabling policy environment. Networks can stand above the fray and push for these important developments, in a way that few other actors can.

At the same time, microfinance networks in crisis-affected environments face many of the same constraints as their member MFIs, particularly those involving security, resource scarcity, and a disorganized sector. Networks become more important, but due to these constraints may in fact be less effective in challenging situations than in normal environments. Therefore, it may be best for networks to focus on the most crucial roles that they can play to foster a sustainable microfinance industry in a challenging environment. This Note examines ten such roles and uses the experiences of networks in challenging environments to lay out a road map to effectively support the microfinance industry during, after, and transitioning out of crisis.

Roles of Networks		
Awareness Building	Industry Learning	Point of Reference
Capacity Building and Training	Innovation	Policy Advocacy
Creation of Credit Bureaus	Institutional Development	Promotion of Best Practices
Development of Model Frameworks	Knowledge Creation	Research
Facilitation of Discussions	Media Campaigns	Technical Assistance
Financial Intermediation	News and Events Information	Training of Trainers
Impact Analysis	Peer Learning	Web-based Resources
Information Exchange and Dissemination	Performance Monitoring	

Source: *Building Strong Networks: An Institutional Guide for Microfinance Networks*, The SEEP Network, 2006.

In some cases, networks are already present in a country before a natural disaster or conflict erupts. However, networks tend to be relatively young entities, with an average age of just five years.[6] Therefore, MFIs, donors, and international NGOs often enter into a post-conflict or post-disaster situation and attempt to establish a microfinance network. The following are common steps to establishing networks in challenging environments, based on the experiences of networks and MFIs in Cambodia, Haiti, Iraq, Rwanda, and other countries.

Establish informal meetings

Networks grow best if they grow organically, out of informal communication. The Cambodian Microfinance Association, for instance, began with years of monthly informational meetings, usually focused on a single topic each month. They also asked World Relief, an international NGO and microfinance provider, to give trainings and workshops to the group. As time went on, the group hired staff and became a formal organization.

Encourage member participation and supply necessary effort

Rusty Schultz, a former director of the USAID-funded Izdihar Sustainable Microfinance project component in Baghdad, had made initial efforts to start a network among microfinance providers in Iraq. However, there were at the time only two large MFIs operating in Iraq. Kimberly Tilock of CHF International - Iraq reported that ambitious program goals and security concerns "left little time for thinking of...networks." The small size of the microfinance industry also meant that MFIs felt they already had an informal network through their regular communications, and so were unsure of the role a formal network might play.

Schultz soon changed his mind and decided to encourage USAID partners to form a network on their own. If a network did form, USAID could provide technical and financial assistance as needed in the future. As of July 2006, USAID was spearheading the effort to organize a stakeholders' meeting so industry representatives could decide if they wanted to create a network, and what its potential role would be.

As this example demonstrates, it is difficult to identify the appropriate level of participation for network organizers and potential members. Network creation may be frustrated if there is low member initiative, or if those spearheading the effort are unable to give long-term, dedicated support to the process. This is particularly difficult in post-crisis environments, where high staff turnover frustrates long-term initiatives. Overworked MFI staff may have very little time and effort to dedicate towards establishing even an informal network.

Find a rallying point

Networks in Cambodia, Mozambique and Rwanda all began as informal networks, then registered and hired permanent staff. For all three, lobbying for appropriate legislation was the main catalyst to formalizing. Finding an issue in which all members are heavily invested helps to encourage member participation and may provide the initial 'push' for the momentum to establish a full-fledged network.

Develop a strategic plan

In the immediate aftermath of conflict or disaster, it is tempting for a nascent network to function in an ad-hoc manner, reacting to any and all problems that arise. However, a network will only be viable if it first assesses its capacities and chooses strategic objectives. For example, MFIs in Haiti gathered at a roundtable organized by FINNET (Financial Networks for Entrepreneurial Empowerment), a USAID-funded project, to discuss forming an association in 2002. As a result of the roundtable, the MFIs decided to formalize a network by creating a steering committee and establishing bylaws. They then hired a consultant to work with them on developing a strategic plan for ANIMH, their newly created network.

Understand the role of a network in the industry in the context of conflict or disaster

A newly formed network may have ambitious goals to meet a plethora of very real needs. However, establishing a microfinance network is a challenging task in any situation, and more so in the wake of disaster or conflict. Attracting funding and qualified staff, generating income, and encouraging participation from already stretched member MFIs may limit a network's potential achievements. Therefore, new networks in challenging environments may wish to prioritize only a few pressing needs. For example, the Afghanistan Microfinance Association (AMA), formed in 2005, decided to act as liaison between member MFIs and other actors, such as government and donors. Other networks have focused primarily on issues such as microfinance legislation and supervision, working to make regulatory conditions more enabling for MFIs. The section entitled "Determining Network Priorities" can help networks to select appropriate roles.

Both newly formed and well-established networks need to identify their priorities in a challenging environment. They do not fill different roles than networks in normal situations; for instance, all networks provide informa-

6. *Global Directory of Regional and Country-Level Microfinance Networks*, SEEP Network, 2004.

tion to stakeholders on microfinance, and all networks encourage transparency among members. Rather, it is the particular constraints of conflict- and disaster-affected environments -- the pressing needs of microfinance clients for other relief and development services; weak or otherwise occupied governments; a mixture of experienced MFIs and relief agencies providing subsidized credit, security concerns; and severe human and financial resources limits -- that determine the relative importance of these roles for a microfinance network.

This Technical Note identifies ten roles that microfinance networks can play to address crucial issues in a fragile environment. The table on page 3 lists 23 roles of networks; the ten roles identified below are the most crucial and most appropriate for networks in challenging environments. The roles are listed in order from least to most complex to fulfill, and each role is based on the experience of networks in challenging environments. The ten roles are:

Ten Roles of Microfinance Networks

1. Serving as an information clearinghouse on the sector
2. Disseminating and promoting best practices
3. Attracting and encouraging coordination among donors
4. Bringing disparate players together
5. Facilitating linkages between MFIs and other development organizations
6. Providing a space for lateral learning
7. Providing or facilitating access to training for MFIs
8. Fostering transparency through performance monitoring
9. Advocating for an enabling policy environment
10. Encouraging a long-term outlook in the industry.

1. Serve as an Information Clearinghouse on the Microfinance Sector

As an association of microfinance providers, a network is well-positioned to collect and disseminate information to its members, other industry stakeholders, and potential donors. It can provide information on the country or regional microfinance industry, such as upcoming meetings and basic member information such as location, financial size, client outreach, and geographical coverage. Networks are also well-positioned to research and publish information on the demand and supply of microfinance, and its impact on communities and local economies.

In challenging environments, networks can provide MFIs, potential partners, and donors with information about the country context. This might include on-the-ground assessments of the conflict or disaster situation in different regions, or identification of security issues and other constraints. In Pakistan, the Pakistan Microfinance Network (PMN) established a working group on post-earthquake microfinance. The group's paper on the subject included an assessment of the earthquake's ramifications on economic development and on microfinance in particular regions. Networks may wish to work with a strategic partner with the resources to research conflict or disaster information, and then disseminate this information to stakeholders.

FINNET, a USAID-funded project (2000-2006), worked with Haitian MFIs to establish an association. FINNET published information on the national microfinance industry, including a market survey of microfinance providers, client outreach, loan portfolio and total savings. When FINNET closed, these functions continued under the resulting network, ANIMH, the National Association of Microfinance Institutions in Haiti.

2. Disseminate and Promote Best Practices

In the urgent climate prevailing after conflict or disaster, microfinance best practices may be pushed by the wayside. This may be particularly true if relief organizations in the area provide financial services bundled with relief services. Networks should promote best practices through information dissemination, as well as through lateral learning and training (see Roles 6 and 7). This is particularly important if the microfinance industry is new, or if organizations new to the industry are providing finance. Promotion of best practices can lay the foundation for a viable, growing industry once the area has moved beyond the crisis stage.

Disseminating best practices is also a good way to start a network. For example, networks in Rwanda, Mozambique and Cambodia began with informal meetings among MFIs to share best practices. The recently formed microfinance forum in southern Sudan began in part as a way for the Sudan Microfinance Institution (SUMI), the main MFI in the region, to encourage good practices among organizations less experienced in microfinance. Kimberly Tilock of CHF International - Iraq hopes that a potential network in Iraq could help promote microfinance best practices to start-up MFIs and the donors that create them.

The Pakistan Microfinance Network (PMN) established a Working Group on Post-Earthquake Microfinance after the October 2005 earthquake, which released a position paper detailing best practices for MFIs and donors. The paper addressed such issues as clients' ability to repay and the proper use of credit services in the post-disaster period; the importance of "immediate access to savings" and remittances; debt rescheduling; the issue of bundling relief and financial services; and viable disaster insurance.[7]

3. Attract and Encourage Coordination among Donors

A microfinance network can serve as the contact point for donors looking to make a nationwide impact. Likewise, networks can use their position to encourage donors to fund MFIs in a sustainable manner consistent with best practices.[8] ANIMH in Haiti, with assistance from the FINNET project, successfully attracted USAID funding for its members after Hurricane Jeanne destroyed members' offices and capital assets in September 2004. Such a service is particularly important in the immediate aftermath of disaster or conflict, when many actors in the microfinance industry may be better versed in relief work than in financial services.

Networks are also an excellent way to encourage coordination among donors in the sector. For example, in Mozambique the national microfinance forum became a place for donors and practitioners to come together. The forum educated certain donors about microfinance, encouraged MFIs to follow best practices, encouraged donor coordination, and attracted new stakeholders to the industry. Irene Karimi, USAID Chief of Party for the Sudan Agricultural Enterprise Finance Project, explains that a microfinance forum can help to get everyone "on the same page," particularly in an environment with much donor activity.

The existence alone of a network [in Sierra Leone] spurred some donors to take the sector more seriously and fund a larger sectoral development program. -Tim Nourse, American Refugee Committee

4. Bring Disparate Players Together

As industry associations, networks can facilitate coordination not only among donors, but also among their members in challenging environments. In Haiti, banks and non-bank MFIs had not previously had a method of regular communication. Now, ANIMH provides a place for members to come together.

Other opportunities exist in the formal financial sector. In the aftermath of crisis, commercial banks may be better established than small MFIs; networks can encourage these banks to move down-market. For instance, PMN in Pakistan urged MFIs after the October 2005 earthquake to "link affected communities to the formal financial system" in order to re-establish service provision as quickly as possible.

One challenge in bringing actors together is that nascent microfinance networks often welcome any and all members. In southern Sudan, for example, there is essentially only one major MFI. So, the newly formed microfinance forum invited any entity doing any form of micro-lending to participate in the forum. This is positive, in that networks can more broadly disseminate information and encourage established MFIs to share their experiences with newcomers to the industry. However, some larger MFIs may feel as though network services are too rudimentary for them, and therefore avoid network activities. Networks in challenging environments, much as in 'regular' contexts, must take care to balance the needs and demands of different types of members.

5. Facilitate Linkages between MFIs and Other Development Organizations

In a post-conflict or post-disaster environment, microfinance clients need more than just financial services. They may need food assistance, health care, educational services, social services, or other relief or rebuilding assistance. Some multisectoral nongovernmental organizations are able to provide all of these services effectively and efficiently, while still adhering to microfinance best practices. Many other MFIs, however, have too few resources to provide all of the services that their clients need. In such cases, partnerships with other development organizations are extremely beneficial. Microfinance networks can help to identify relief agencies and NGOs that best provide these services, and facilitate partnerships between them and member MFIs.

Relief agencies and development organizations seeking to offer microfinance services should undertake the initiative in collaboration with specialized financial service partners... financial service providers can address the technical microfinance aspects of the operation, while the development/ relief agencies provide...complementary services (health, education, vocational training). - Khalid Nawaz, Mehr Shah and Greg Chen, Pakistan Microfinance Network

7. Nawaz, Khalid, Mehr Shah and Greg Chen. 2006. "Working Group on Post-Earthquake Microfinance: Initial Recommendations March 2006." Draft (March). Islamabad: Pakistan Microfinance Network, Financial Sector Strengthening Program and ShoreBank International Pakistan.

8. For more information, see SEEP's Network Development Services Technical Note #3, "Effective Donor Strategies to Support Microfinance Networks," 2006, The SEEP Network.

6. Provide a Space for Lateral Learning

While the challenges MFIs face operating in a conflict- or disaster-affected environment are many, they are also common across many MFIs. One of the most important services a network can offer is the facilitation of experience sharing and lateral learning so that MFIs can learn from one another how best to adapt in the environment.

PMN in Pakistan, for example, stressed the importance of lateral learning and of documenting successful experiences in its paper on post-earthquake microfinance.[9] In the West Bank and Gaza, the local microfinance association served as a forum for discussion on the economic, political and military issues MFIs were facing. The Afghanistan Microfinance Association (AMA) studies the experiences of its members and dispenses "advice to others on using the same practice and techniques to make the program as successful as possible."[10] Former AMA Coordinator Ahmad Jawed Karimi has found that demand for lateral learning is very high in the young Afghan industry.

Networks can also use their contacts with other associations to provide lateral learning from countries in similar contexts. AEMFI, the Association of Ethiopian Microfinance Institutions, facilitates lateral learning between its members and more experienced MFIs in other African countries.

In the [Democratic Republic of the Congo], MFIs involved in only a monthly meeting of a lateral learning network changed some of their practices for the better (more competitive interest rates or extended hours) as a result of shared learning. -Sarah Myers, World Relief

7. Provide or Facilitate Access to Training for MFIs

In post-conflict and post-disaster environments, MFIs may have to offer innovative products and services to meet their clients' needs and changing situations. While MFIs in all situations face a shortage of human resources and a need for microfinance training, this problem is magnified many times in conflict- and disaster-affected situations, where education systems are disrupted and many people may have died or fled the country. Networks can address these obstacles by providing training themselves, or by serving as a market facilitator to link MFIs to training providers.

For example, PMN in Pakistan delivered a course on post-disaster microfinance, designed by the ILO, in May of 2006. In Haiti, FINNET, a USAID-funded project, and ANIMH provided workshops and roundtables on microfinance in difficult environments.

Even newer networks without the ability to provide training in-house can help to facilitate access to training. For example, ANIMH in Haiti, who has inherited the training curriculum and materials developed by FINNET, plans to facilitate the delivery of training to its member MFIs. Or, networks can rely on one or two strong, well-connected members to provide training throughout the sector.

Lateral learning is an excellent source of capacity building information in fragile environments. Networks can capture lessons learned from such activities, and use those field-tested solutions to inform training and publications.

Networks should, however, be aware of several challenges to providing training. Workshops must take the constraints of the environment into consideration, without straying too far from microfinance best practices.

As financial viability is more difficult in challenging environments, networks may have to heavily subsidize training for member MFIs. And in relief areas, where trained microfinance specialists are few, the need for basic training in microfinance may predominate.

Gradually through providing training we are trying to fill in the shortage of inexperienced staff in the sector. The Microfinance Investment Facility for Afghanistan (MISFA), which is one of AMA's members at the moment, is playing a lead role in providing such...trainings. -Ahmad Jawed Karimi, Afghanistan Microfinance Association

8. Foster Transparency through Performance Monitoring

The low levels of human resources, and high concentration of inexperienced microfinance providers, often translate into uneven application of best practices, high numbers of non-performing loans, or lax financial oversight. Additionally, some clients may be highly mobile (such as in refugee camps) or may have had their business and household assets decimated by the conflict or disaster, further complicating MFIs' operations. Networks, in addition to simply promoting best practices, can encourage members to share information about their financial performance in order to provide benchmarking or rating services. This in turn helps members adjust their operations to become more sustainable, improving the entire industry. In 2006, ANIMH assumed responsibility for the performance indicators working group started by a USAID-funded project. Each quarter, ANIMH collects and disseminates performance indicator information among its members.

Performance monitoring can begin with collecting basic financial data, and working up to more sophisticated data collection, perhaps by partnering with a specialized agency such as the

9. Nawaz, Shah and Chen 2006: 4.
10. Ahmad Jawed Karimi, then-Coordinator, Afghanistan Microfinance Association. Personal communication, 2 May 2006.

MiX Market. Publishing performance reports and benchmarks is beneficial to the national or regional industry, and can also attract donors to the sector.

ANIMH in Haiti was only founded in 2003, but already has taken steps towards greater transparency in the microfinance sector. It supports a working group, made up of 18 MFIs, who meet to discuss financial indicators and share their own data every quarter. ANIMH also manages a bad-debtors list, in which most network members participate.

9. Advocate for an Enabling Policy Environment

Policy advocacy is one of the most important and difficult functions a network can fulfill in fragile environments. Microfinance regulation is rarely a priority of new governments or of governments facing ongoing conflict. MFIs in Iraq report difficulty in trying to influence a government that changes frequently. Yet MFIs trying to conduct their business are often caught in legal limbo, so formal registration and appropriate regulation are pressing concerns. Many networks in normal environments face similar obstacles regarding the regulatory and legal framework. However, networks in challenging environments must work harder to gain officials' attention, thereby necessitating a greater need for effective policy advocacy.

Policy advocacy may start with educating government officials about microfinance and its regulatory needs. The AMA in Afghanistan met with newly elected members of parliament in 2005 to build awareness about microfinance. Networks may also position their staff or representatives as consultants to the government for policy development.

In the absence of appropriate legislation, networks may have to help members regulate themselves. This is particularly true when governments, central banks, or commercial financial institutions become inactive or dysfunctional due to crisis. In such situations, self-regulation is necessary, and often more appropriate to the needs of microfinance. For example, in Burundi MFI members of the national network helped inform the government on new laws on microfinance. However, in the interim before the legislation took effect, the network members also established a code of ethics for themselves. In Kosovo, the major MFIs in the country created a credit bureau, which has improved their ability to identify clients and avoid duplicate loans.

To effectively advocate for appropriate policies, a network must have a coherent strategy, be recognized as credible, and be proactive, rather than simply reactive to government action. However, a newly formed network may lack the credibility to influence government or central bank officials. The new microfinance forum in southern Sudan has addressed this issue in an unusual way, by inviting the Undersecretary of the Ministry of Finance to be the chairman of the forum.

In Afghanistan, microfinance is a very new concept to the country, and government officials are relatively uninformed about microfinance; thus, AMA seeks to educate government actors. "We need a voice," says board member Armando Sirolla. "We need a voice straight from the industry."[11]

10. Encourage a Long-Term Outlook

In a conflict- or disaster-affected environment, it is often difficult to predict the future or to make plans. However, planning for the future is crucial to establishing a sustainable microfinance industry. Encouraging a sense of permanence among MFIs is also vital to building clients' trust and encouraging a culture of repayment. Networks, as the face of the industry, can help to establish the microfinance sector as permanent and viable.

Networks must themselves adapt to changing circumstances. In Rwanda, a network was first formed due to a lack of best-practices knowledge and the need for microfinance legislation. When the MFIs gained more experience and the legislation passed, the network was left without a common cause. At the same time, its donor funding slowed down as the post-conflict period ended. Not adapting to its members' changing needs and to the end of the crisis period, the network became dormant for a time, then later began to function again.

Networks can also, through capacity building, help MFIs to adapt their services and delivery methods to changing circumstances. As the crisis ends and people return to normal lives, loan terms or mechanisms will have to change. Additionally, states emerging from the post-crisis stage will lose some donor funding. MFIs and networks must plan for this occurrence, and be ready to find other funding and generate more income.
However, networks in conflict- and disaster-affected environments face more roadblocks in planning than those in normal situations. They may decide, for example, to frequently review their strategic and annual work plans to ensure they conform to changing realities.

11. Comments at USAID Learning Conference on Microenterprise Development, 14 June 2006, Washington, DC.

Some of the above mentioned roles are performed by almost all networks, whether in challenging or normal environments- for example, providing information, disseminating best practices, and providing a space for lateral learning. These roles are so basic and crucial to network functioning that they cannot be overlooked. A crisis may make it more difficult for a network for fulfill these roles, but it also makes this service all the more important to members.

Other roles are more difficult to fulfill, though no less important. These include facilitating access to training, performance monitoring, policy advocacy, and encouraging a long-term perspective. Still other roles are extremely beneficial, but not essential to good network functioning. These include bringing disparate players together, facilitating partnerships with development organizations, and encouraging donor coordination.
How can networks decide which of these roles should be their main priorities? Some networks, particularly those that were well-established before the conflict or disaster, may be able to meet all ten roles. Newer networks, and those in environments where microfinance is an unfamiliar concept, might choose to focus on communication and information priorities, such as roles 1-5. Networks operating in countries with a policy environment unfavorable to microfinance (as opposed to the absence of microfinance regulation) may need to concentrate on advocating for an enabling policy environment, particularly if this is their members' most pressing need. In contexts characterized by highly subsidized credit or poor repayment, networks may need to focus their efforts on disseminating best practices, encouraging donor coordination and facilitating linkages with relief and development agencies. In any situation, a network must balance the needs and demands of its members against its own abilities and the constraints imposed by the conflict or disaster.

Challenges for Networks

Fulfilling any or all of the ten roles listed above is not an easy task. Those in charge of establishing and running a network in a fragile environment face particular challenges, above and beyond the special needs of MFIs operating in post-conflict or -disaster situations. These challenges include, but are not limited to:

Fostering member demand and participation: Forming an organically-grown, member-supported network was a major challenge in nearly all cases cited in this Technical Note. Donors or large NGOs are often the catalyst to the establishment of a network. However, practitioners with experience in Congo, Rwanda, Liberia and other countries all report that without active participation and a sense of responsibility among members, a network will not thrive. Those hoping to establish a network face the challenge of converting the very real needs of MFIs into a conscious demand for a network. Donors supporting MFIs should, when possible, build in the financial and human resources necessary to support member participation in a network.

Determining membership criteria and size: A limited membership policy may help the network to select active members and to provide services relevant to all members. Additionally, very small or informal MFIs may have very little resources to dedicate to network participation. However, networks may wish to disseminate best practices as widely as possible, particularly in industries dominated by temporary service providers or relief organizations. In such cases, an open policy might be a more appropriate solution.

Managing scarce resources: Even in countries well-funded by donors, networks face serious human and financial-resource shortages. This is particularly difficult if members are less able than in normal situations to contribute through dues and service fees. Additionally, networks must be cautious not to let donor funding supersede member demand in determining network activities. This is a challenge even in the most stable of environments, and is particularly difficult in post-crisis environments popular with donors. Donors seeking guidelines on funding microfinance networks may wish to read SEEP's Network Development Services Technical Note no. 3, "Effective Donor Strategies to Support Microfinance Networks."

Registering the network and its members: The AMA in Afghanistan reports that its own official registration and that of its members are two of their biggest challenges. As with policy advocacy, networks must garner the attention of governments who are often underinformed about microfinance. Additionally, the lack of official registration may hamper a network from being able to conduct certain activities. Well-connected partners and donors of networks may wish to help them overcome these first hurdles to further activity.

Mitigating member conflict: Network relations may become political as large, international MFIs' interests conflict with those of smaller, grassroots microfinance providers. Networks must be particularly careful to ensure democratic participation and encourage healthy competition rather than infighting. In some cases, multiple networks may be a more appropriate solution for the country or region.

Determining when the crisis period is over: Networks operating in immediate post-crisis environments face low awareness about microfinance best practices and a high demand for relief services. Their priorities are very different from those of networks in stabilizing environments, who may lobby for a microfinance law or focus on capacity building. This problem is compounded by the international community, who may perceive contexts to be conflict- or disaster-affected when practitioners do not themselves feel it is so. Networks, their donors, and their partners must take care to regularly assess member needs, in order to provide appropriate and relevant services.

Conclusion

In conflict- and disaster-affected environments, MFIs face many difficulties, including security issues, inappropriate regulation, and a relief mentality. MFIs may feel isolated and without access to information on the microfinance industry and on best practices. Microfinance networks in challenging environments, much like networks in normal situations, help to bring MFIs together to benefit from lateral learning and to develop and disseminate best practices.

Microfinance networks in conflict- and disaster-affected environments do not fulfill radically different roles from those in normal contexts. However, due to the disorganized nature of the sector, the high prevalence of inexperienced microfinance providers, the lack of appropriate regulation, and the security and resource constraints resulting from the conflict or disaster, some roles become more crucial for these networks. These are: serving as an information clearinghouse; disseminating and promoting best practices; attracting and encouraging coordination among donors; bringing disparate players together; facilitating linkages between MFIs and other development organizations; providing a space for lateral learning; providing or facilitating access to training for MFIs; fostering transparency through performance monitoring; advocating for an enabling policy environment; and encouraging a long-term outlook in the industry.

Networks in conflict- and disaster-affected environments around the world have demonstrated effective ways to fulfill these roles. For example, PMN in Pakistan promotes best practices of post-disaster microfinance, and encourages linkages between MFIs and social development programs. ANIMH in Haiti provides information dissemination to all interested stakeholders, and monitors the performance of its members. The Sierra Leone Microfinance Forum, which later developed into a formal network, helped to attract donors to the sector. The newly formed microfinance forum in Sudan brings together both experienced MFIs and newcomers to microfinance. AMA in Afghanistan helps members share success stories and techniques with others, and facilitates training for its members. Networks in Burundi, Sudan, and Afghanistan educate governments about microfinance and provide guidance for an enabling policy environment. Finally, networks that plan for the future and adapt to changing circumstances encourage a long-term, sustainable microfinance industry, serving the country well beyond the crisis period.

Networks in crisis-affected situations share common challenges with networks in normal environments, such as encouraging member buy-in, managing scarce resources, and determining member criteria and size. However, these issues are often more serious in challenging environments. Challenges specific to the conflict or disaster also exist, such as transitioning to a non-crisis stage. As the glue that binds MFIs together into a coherent industry, networks have the opportunity to make a real difference for their members, and to help them overcome the challenges of conflict- and disaster-affected environments.

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Acknowledgments

The author wishes to thank the microfinance practitioners and network representatives whose experiences informed this technical note:

Amy Davis, independent consultant
Mercedes Fitchett, USAID Iraq
Ken Graber, World Relief
Ahmad Jawed Karimi, former Coordinator, Afghanistan Microfinance Association
Irene Karimi, Chemonics/ USAID Sudan Agricultural Enterprise Finance Project
Lauren Mitten, DAI
Sarah Myers, World Relief
Khalid Nawaz, Mehr Shah and Greg Chen, Pakistan Microfinance Network (PMN)
Dan Norell, World Vision
Tim Nourse, American Refugee Committee
Rusty Schultz, former director, Izdihar Iraq Private Sector Growth and Employment Generation Project (funded by USAID)
Armando Sirolla, Aga Khan Development Network. Former board member, Afghanistan Microfinance Association (AMA)
Tigist Tesfaye, Association of Ethiopian Microfinance Institutions (AEMFI)
Kimberly Tilock, CHF International - Iraq

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Printed in the United States of America

Layout and Design: SEEP Network