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Action research on microfinance in post-conflict situations

Can relief organisations do microfinance?

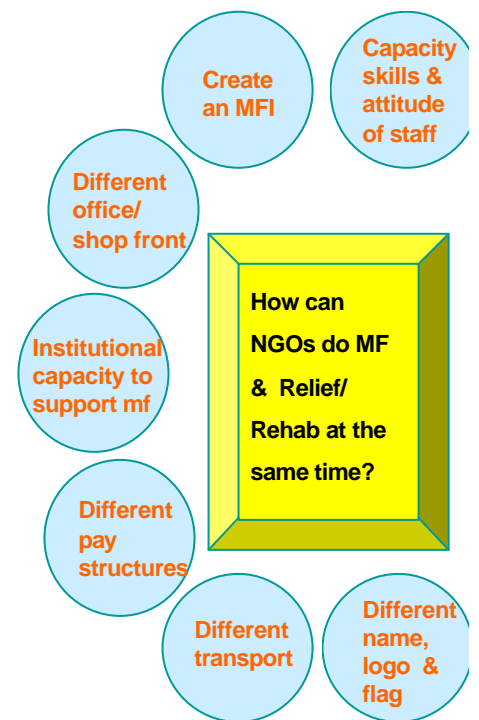
For many relief workers, the demand for services which will help people rehabilitate their household economies is tremendous and setting up a savings and credit program often seems like the right thing to do. However, there is abundant learning from expensive and un-sustained microfinance projects in PC environments which highlight the implications of mixing relief / rehabilitation and microfinance. These include:

- A clash of cultures – microfinance requires staff to have a business like attitude, whereas in relief, humanitarianism is the key work ethic. This affects the product terms and conditions, repayment rates and ultimately sustainability.
- Contradictory objectives – the aim of relief interventions is that the service 'short term' whereas in microfinance, the objective is to provide an on-going service to meet continuous demand. The key implication is that unlike relief provision, microfinance services need a sustainable, institutional infrastructure.

What the research found in research case study countries was that there was often a first wave of microfinance activities which suffered from high delinquency rates, chronic inefficiencies and were unsustainable. After a learning curve or a collapse, the microfinance industry in the post conflict country adopts more conventional 'best practices' and restructures. A key

factor in contributing to a high failure rate in 'first wave' post conflict microfinance projects was an inappropriate skills set amongst staff where many staff had expertise in other areas.

This project aims to contribute to the elimination of the unhelpful 'first wave' and to improve the use of limited resources by increasing the provision of sustained, appropriate micro-finance services. The diagram below highlights some of the key issues that organization needs to be able to take on board in undertaking microfinance in post conflict settings.





Behind the Survey Scene

By Straton Habyalimana, Pilot
Project Supervisor

It is 4:30 PM. We were scheduled to leave the field by 3:30 at the latest. We had been waiting for the last researcher for one long hour. Finally, we saw him hurrying; he jumped in the car, apologized, and told us his story. He had been interviewing a woman who he had met before in another household. When she had welcomed him, she said: "Wait a moment!" Few minutes later, he saw her running after a rooster. He waited and waited again. Then the woman joined him and he carried on the interview. When he got up to leave, the woman was upset, told him that it was too early to leave. He explained that he had to get back to the office before it closed. Then she told him that she had plucked the rooster and grilled it for him. We exchanged many such stories of generous and engaging hospitality in the car on our way back.

Ten weeks in the same area, interviewing people is more than necessary to make acquaintances and build friendships. The overall research was aimed at finding out precisely what clients require in the form of micro-finance products. The bare prolonged presence in the area has created expectations, and this has been utilized indirectly as a promotion strategy. This makes it easy to publicize in such conditions. This can be advantageous.

On the other hand, there are negative outcomes. Researchers chat with new acquaintances, and sometimes provide information on the future MFI which becomes

distorted through gossip. Yet the MFI is not yet even designed.

The increasing number of non-sampled people volunteering to be interviewed used to impress me. I tried to find out the reason why this was happening. There was some surprising results: "*I know that you are going to back the thieving of those damned shopkeepers!*" one told me angrily one old woman, leaning on her walking stick, and pointing her threatening crumpled finger to me. "*Shopkeepers have money, and no problem. They are now reaping up our harvest for free, because we need money. And as it happens, you are going to give them more money and help them vampire us. Why in the heavens does no one have some concern for poor people?*"

From a very different perspective, a cell (lowest administrative level) leader told me, "*you have sampled illiterate folks who can't distinguish a cat from a rat. Why don't you interview educated people who have bright ideas?*"

From all this, I concluded that there is one step to be considered in implementing the research tools: an introductory general meeting with the population of the area where the research is going to be undertaken. The local leaders' assistance in organizing this meeting would be important. The objectives of the research should be explained, as well as the sampling methods. This would help develop a spirit of cooperation.

Box 1: SUCCESSFUL POST-CONFLICT MICROFINANCE WORKSHOP TO BE REPEATED

Concern Worldwide and The Springfield Centre hosted a one-day workshop on the 19th of April '02 in London.

This was an opportunity to share and deliberate on the results of the qualitative research into PCM, conducted last year in Angola, Cambodia, Mozambique and Rwanda. Tools for designing microfinance products in post-conflict situations were also presented (see page 3 for more details).

Feedback on the workshop was very positive as one respondent conveyed:

'Excellent!! One of the best workshops I have attended. The materials will no doubt prove to be useful and allow other researchers / organisations to utilise this information.'

The workshop will be held again, this time in Dublin, Ireland on the 5th of July.

For further information contact claire.martin@concern.ie

PRA & the Research Methodology

Response by Isabelle Kidney,
Concern Worldwide

Letters to the Editor

In your article 'Market Research: Closing the information Gap', you criticised PRA as a means of collecting market information. Clearly you are unaware of the progress that has been made in the field in the past five years. Look for example at the market research tools of Micro-save Africa. Hundreds of MFIs now successfully use PRA to learn about the needs of their clients. Your purist approach, which assumes that PRA must be used to empower, is outdated and unhelpful.

Yours,
Mr Peer Ray

Dear Mr Peer Ray,
Thank you for your response to our newsletter. This project hopes to encourage practitioners to draw on what is best from different schools of thought and continue to contribute to the innovation and development of market focused research for microfinance.

Generalising about PRA techniques may have been unhelpful because the term covers a broad spectrum of different tools, some useful for microfinance and some not. Perhaps it would be useful to distinguish 'market-focused PRA' to describe those techniques that take account of markets and attempt to gain information on client preferences - which is of value to MFIs, from the more open forms of PRA, investigating communities and

assisting them to analyse their needs, could be referred to in this context as 'community-focused PRA'. The project recognises the important contribution of market focused PRA methodologies in particular those being developed by MicroSave Africa.

Further clarification on the tools being developed for microfinance practitioners in post conflict situations bears out the projects view on qualitative and quantitative methods. An outline of the tools is shown in the diagram below.

As can be seen, the project is utilising a hybrid approach drawing on qualitative (which generally includes PRA) and quantitative research methods. It is recognised that there are trade offs in using either approach. These include:

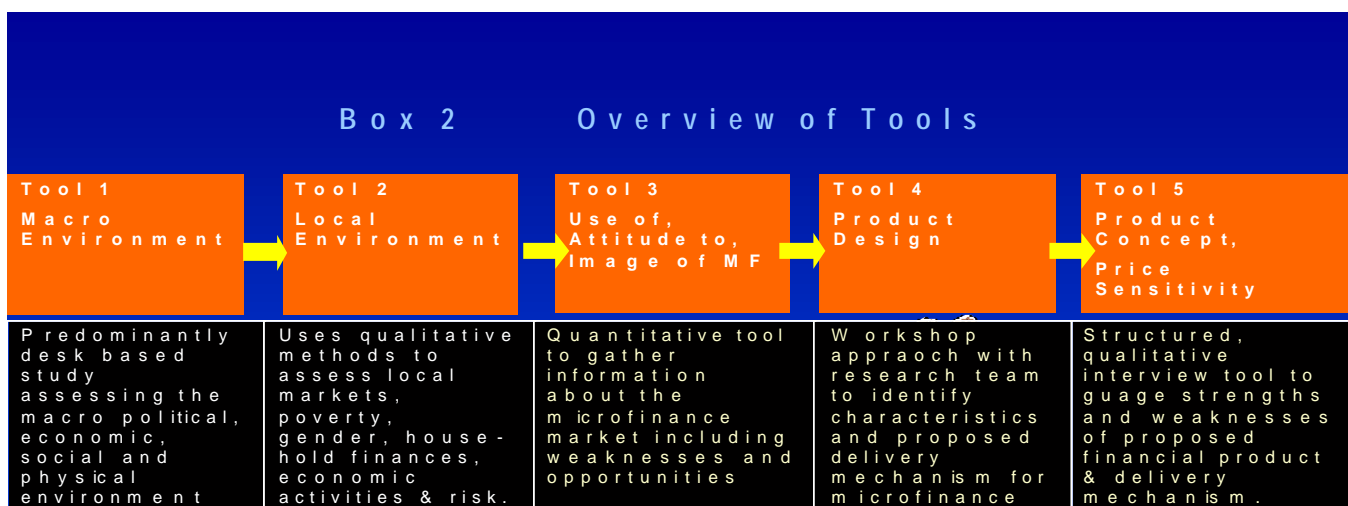
- Quantitative research will generally provide wider 'breadth' of information (e.g. due to a larger research population and information that is easier to categorise / aggregate) where as qualitative methods will provide a good 'depth' of information on the multidimensional, complex context.
- In pure quantitative research, the researcher is viewed more as the 'expert'. In qualitative research, the researcher is viewed more as a 'facilitator', where the agenda

is more client responsive.

- Finally, it is recognised that quantitative research can be more extractive. The interviewee is more passive then in the more interactive qualitative research approaches which have the potential to be empowering, or at least, more involving.

The usefulness of quantitative methods should not be sidelined. It allows for concise disaggregation by client category (e.g. landed / landless; male / female and so on) and allows for more categorical substantiation. This contributes to product design aimed at a particular client category as well as assisting in developing marketing strategies (e.g. certain age groups prefer savings over credit).

While the practitioner tools aim to harness the complimentarity of the two approaches, it is recognised that there are advantages and dangers in mixing them. The advantages include scope for gaining a both a deep and broad understanding of a context in which information is quantitatively substantiated. The key danger is that the research phase becomes excessively extractive. Thus, the research methodologies which interact, have been designed carefully with a view to culminating in a market responsive, client led design of financial products.



Are Markets Relevant to Microfinance?

and RoSCAS (Revolving Savings and Credit Associations) often

By Isabelle Kidney, Concern Worldwide

The resumption of market activity is an essential condition for undertaking microfinance in post conflict environment. In the set of tools being developed for MF practitioners in post conflict settings, one tool focuses on assessing markets, poor traders, cash flow / capital requirements and risk.

Through the market, a rural community experiences its exacting seasonal rhythm and coming out of a conflict, the resumption of market activity is a good indicator of the temperature of the local economy. The market defines the socio economic strata, with rich and poor differentiated by their trade and place in the market. Those considered well off typically own or run a shop, while the poorest in the market sell primary products 'off the ground'. The items sold off the ground have very little value added and the sellers are typically extremely poor in productive assets, their own labour being the key resource. The market connects remote communities with the wider economy. For example, early morning traders from the capital of Rwanda, Kigali, travel 45 kilometres – including 20 km of dirt road – rush vegetables to Kigali for the afternoon markets. While this trade is healthy and essential, the overall balance of terms of trade is not falling in favour of the small primary producer.

What has this got to do with microfinance?

Ability to repay: the market place offers an informative venue for



Map by Steve Townsend

credit agents with prospective clients to estimate appropriate loan size as part of an overall loan application process.

Promotional drives: the market is an excellent venue for promoting microfinance and as it often displays seasonal swings, will help inform as to when is the best times to do so.

Collateral: designing an individual loan product for the poor poses a challenge in the absence of conventional collateral. Churchill (1999) suggests that collateral is ultimately a substitute for information. In a post conflict setting if individual lending is being considered, there may be some aspect of the business or trade that can act as a collateral. Additional collateral substitutes for individual loans include business and household assessments and over time, credit rating.

Branch outlets: The market place is a convenient place for locating a branch.

Learning from informal providers: the activities of money lenders

take place on market days and also display seasonal variations. In designing products, it is necessary to fully appreciate the dynamics of informal lending.

What does the market not reveal?

The market hides a number of factors important to microfinance providers:

- Some of the poorest (e.g. daily labourers) do not make it to the market.
- The market will not give a full picture of the household economy, which is a more accurate barometer of appropriate loan size.
- It will not adequately inform the supply and demand for (informal) finance in the community.
- It does not reveal the complexity of factors affecting MF demand.
- A focus on markets might deceive practitioners into the cosy concept of productive loans purely for business and trading.
- It does not provide a forum for understanding the desired attributes of a financial product.

And finally, on market day, people are busy with their business and may not be in the mood to discuss these issues at much length, if at all.

Tips on Research in Post Conflict Settings



Box 3


Don't Mention the War!

In conducting the semi structured interviews, researchers attempted to understand the change in roles since the genocide. Despite attempts to neutralise questions, it was found that certain subjects were difficult to discuss and some were clearly out of bounds.

- Any direct reference to the period of conflict / genocide should be avoided. Questions such as 'how has your role in decision making (or making money) changed since the conflict' brought back memories of the genocide and proved to be highly emotive. The researchers recommended early on that all direct references to this period be taken out of the questionnaires.
- Finding out about wealth and poverty were not contentious in this context several years have elapsed since the genocide. However, the author has found that questions about assets, wealth and productive activities closer to the time of a conflict, even without reference to the conflict, can be emotive. Information should be gathered by phrasing questions in the third person or 'in general', or from a member of the community who has been less affected, through observation or through a third party, such as a local official.
- The microfinance team are not psychologists or journalists. Often they themselves will also have been affected by the war. In researching peoples patterns and livelihoods it is not easy to avoid the stories that go along with these. As a manager of the research, it is necessary to ensure that the research methodology does not upset the interviewee or the interviewer. Close monitoring, care and daily feedback taking the advice of the researchers on such matters are necessary to mitigate any potential negative effects of the research.

By Steve Townsend, Program Manager in Rwanda, with Concern Worldwide.

- **Keep the interviews short** – Once they get going, rural dwellers will talk at length. A seemingly short interview will take much longer than anticipated. A long interview frustrates and fatigues both the interviewee and interviewer. Split longer interviews into smaller ones if possible.
- **Keep the research period short** – If the whole research to product production cycle can be reduced to six weeks, the community become aware that something good may be going to happen, without getting interview fatigue.
- **Think carefully about the sample** – Sampling heads of households is not a suitable method of sampling. A cross-section of society is required. Heads of households will inevitably be older, whereas the general population after a conflict will usually be very young (older people and adult males are killed during war and birth rates rise dramatically immediately after a conflict). Also, micro-finance is often most useful to young landless adults, between the ages of 25 and 45 years, many of whom will be living under their parents' roof, because they are landless.
- **Employ a good assistant from the country early on** – This is not easy to do when entering an unknown country. However, it is important to have an assistant who understands the environment of the country and the rural area, as well as having a degree of experience in Micro-finance and research.
- **Language is a serious hurdle** – Learning a language takes time, making fluency a tall order for a new comer to the country. However, effort must be made to study or at least understand *quirks* of language and no translation should be trusted. Test translations on as many sources as possible.
- **Don't mention the war!** (See box 3 on this page)



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