Chapter 1

Introduction

1.1 Background

Armed conflicts have long-term consequences, no matter which side wins or whether a power-sharing solution is reached. It has devastated consequences on development, in terms of deforesting economy, decreasing social capital through loss of trust, diminishing interaction and increasing tensions between ethnic groups, and in declining human capital through death and displacement, loss of self-esteem, and trauma (Marino, 2005; Ndulo, 2007; Gupta, Clements, Bhattachary & Chakravarti, 2002; Woodworth, 2008). Women and children were the magnitude of the impact of conflict. The consequences of conflict for women in societies are increased numbers of widows, increased household responsibilities for women, and prolong the vicious cycle of poverty (Ndulo, 2007; Woodworth, 2008).

As described by Marino (2005), Shaw and Clarke (2004), Haider (2006), and Woodworth (2008), microfinance encourages conflict resolution, relief, reconstruction, and social reconciliation in pre-conflict, during conflict and post-conflict environments as well as long-term economic reconstruction. Microfinance providers working in conflict-affected environments should understand the dual imperative of being both careful and proactive. The ability of microfinance providers to influence future policies governing microenterprise and small-business development is an important incentive to work undergoing rapid, sweeping changes. Most significantly, microfinance is a tool that can serve multiple goals such as an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation and also consideration of its use as a relief and survival strategy in the immediate wake of conflict, and as a tool for peace and reconciliation.

Underlying all of these considerations are the individuals who live in conflict environments. Resolved to move beyond the conflict and begin to rebuild their lives, they affirm to being held accountable for a loan and empowered to invest represent a powerful return to normality. Where and when this situation exists, microfinance can be and is an effective vehicle for improving the clients' economic well-being. The vast majority of microfinance development programs in conflict-affected areas are designed to be tools for economic development at the household and community levels. These programs focus primarily on rebuilding and restarting local economies through enterprise and employment creation, or increasing economic self-sufficiency or economic self reliance by providing needed financial services to vulnerable but economically active individuals and households. Mainly focus is greater on mechanisms to build trust among clients who have suffered from years of terror and violence. Affirmatively, once the immediate shock of the conflict begins to subside, there attest to an increasingly high demand for credit (Noreen, 2011).

Armed conflicts leave communities with a high number of conflict-affected widows and orphans who are vulnerable to unhealthy health practices. As a result, they suffer catastrophic losses of property, natural resources, livelihoods, and life. At the same time, widows become heads of households, responsible for providing not only for their own livelihood, but also for the support of their children, elders, and others abandoned or orphaned. In this instance, microcredit programs can be specifically designed to support and help widows to be trained and practice selective income-generating activities in the field of petty-trade, small-scale business enterprises, and commercial agriculture as an alternative jobs, alleviate their present deplorable situation, and to help them care for themselves and their dependent children. Significantly, these programs can empower them to become self-reliance once again. By providing funds to widows and encouraging them into business, their standing has not only improved in their communities, but it also helped them to become agents of change (Avery, 2005).

The unrest situation in the deep south of Thailand during 2004 - 2011 has resulted in 9,411 injuries and 4,018 deaths, of which 3,650 were male (Chirtkiatsakul, 2011). Lim et al. (2009) study on the living conditions among victim's families revealed the average age of the victim's wife was 42.2 years, (54 percent) were Muslim, (7.4 percent) were widowed, and the median number of dependant was 3. It was estimated that the unrest has created 2,700 widows and 8,000 dependants. Furthermore, the most urgent needs of victims' families were financial assistance (40.6 percent), scholarship for children (22.6 percent) and personal security and assets (16.6 percent).

Reaching a critical milestone at the onset of 2007, the Thailand Research Fund (TRF) handed over a micro credit project to the community under the name of the Mother's Fund (MF) activities. The MF activities provided aid to clients who were most affected by the conflict, empowered those who lost their loved ones as an aftermath of conflict, in which management mechanisms, structures, and systems often need to be built from scratch. These activities aimed to bring them back to normality, produce their economic self-reliance and develop long-term, sustainable communities. As the MF programme has been in operation for a number of years, this study aims to investigate *what* the Fund has achieved in term of loan repayment rate, as well as *how* these results were achieved. The results of this study would be used in further development of Mother's Fund in later phases.

1.2 Objectives

1. To explore *what* level of results can be achieved in terms of loan repayment rate, and sustainability
2. To identify *how* these results are achieved

1.3 Expected benefits

1. Improvement of the working process and determination of the direction of activities at the community level.
2. Improvement of Mother's Fund activities in later phases.

1.4 Literature review

Microfinance is a tool that is widely used to combat poverty in developed, developing, and under developed countries. Microfinance refers to the provision of a broad range of financial services such as savings, credit, insurance, and payment services to the poor or near poor or low-income individual or group who are traditionally lack access to banking and related services (Gonzalez-Vega, 1998; Ledgerwood, 1999). According to Robinson (2002), microfinance also includes imparting entrepreneur skills and training, along with tips and advice on many matters for develop the self-confidence and a standard living such as health and sanitation, nutrition, importance of educating children, and improving living conditions.

Microcredit, sometimes called banking or micro-lending, is defined as provision of an extremely small loan for the poor individual or group especially for income-generating activities. It is an innovative approach to empower poor people around the world to pull them out of poverty and to gain self-confidence through self-employment. It is actually microfinance institutions that provide the microcredit services (Conroy, 2002; Maria, 2004).

Therefore, it can be concluded that microcredit is just a small credit given to the poor that engaged in microenterprise or for the purpose of income generating activities. On the other hand, microfinance includes broad financial services given to the poor for many reasons, and not just for income generating activities. Woller and Parsons (2002) explain microfinance as the second revolution in credit theory and policy where the first revolution is microcredit.

In many different settings, microcredit has been shown to increase business profits (McKernan, 2002), household cash flows (Copestake, Bhalotra, & Johnson, 2001), household consumption (Pitt & Khandker, 1998), reduce poverty (Khandker, 2005), empower women (Panjaitan-Drioadisuryo & Cloud, 1999; Hashemi, Schuler & Riley, 1996), lower consumption variation (Morduch, 1998), and improve child education outcomes (Holvoet, 2004). The clients' major economic activities include poultry-raising, animal husbandry, homestead gardening, small-scale trading, and non-farm services (Ahmed, 2007).

Microcredit serves as a tool to combat poverty in all situations: pre-conflict, during conflict, post-conflict, natural disasters, and other difficult settings. Most studies on the success of microcredit were conducted under normal circumstances and were conducted on two major issues; dropping out from the microcredit program, and loan repayment rate.

Studies on microcredit for empowerment of women based on induction of household economic self reliance found that most impoverished women would lack entrepreneurial skills, emerging poor entrepreneurs experience, have marketing problems resulting in the inability to sell the products. The result of these strategies is a grim future for the failed entrepreneurs. A significant portion of them are dropped out from the program (Mahmud, 2008).

The drop out rate among clients of a microcredit organization in Peru, Mibanco, is 56 percent over a two-year period and they claim that this dropout rate is quite normal (Tedeschi & Karlan, 2009). The study in East Africa found the rate of client drop out ranges between 25 percent and 60 percent per annum (Wright, 2001). Grameen Bank estimate the annual rate of drop out was 15 percent in 1993 (Khandker, 1994). The average dropout rate of 28 percent per annum experienced in Asia and well below the average global dropout rate of 48 percent. (Civil Society Human and Institutional Development Programme, 2005). In Asia-Pacific countries e.g. the Philippines, Indonesia, Malaysia, Myanmar, and Cambodia, the drop-out rate is between 10-20 percent.

Drop outs are therefore likely to be a direct or indirect result of a failure of the microcredit program to adequately work in a way that raises the client out of poverty. This may be due to inappropriate products for the needs of the poor, to the pushing out of struggling clients by more successful ones, or to business collapse, and difficulty in maintaining repayments (Simanowitz, 2000).

Another indicator for success is the “loan repayment rate”. The repayment rates generally achieved by microcredit organizations are also often cited as a measure of their success or failure. Grameen Bank’s activity in Bangladesh, the most striking feature of microcredit program is the usually high reported repayment rate of 98-100 percent comparing to 96 percent achieved in the United State of America banking sector (Aghion & Morduch, 2005). In 2006, the microcredit program Village Welfare Society' (now on, VWS), in India, reported an on-time repayment rate of 99.1 percent (Jain & Mansuri, 2003). Amanah Ikhtiar Malaysia (AIM)’s microcredit program in Malaysia had more than 99 percent repayment rate (Al- Mamun, Wahab & Malarvizhi, 2011). By 2005 in Burma, the Delta Region Microfinance Organization (DRMO) claimed the repayment rates of 98 percent to 100 percent (Turnell, 2005). The microcredit operation in Indonesia was started in 2008. Around mid 2009 the business grew to larger made the repayment rate was above 90 percent. Typically, the staff did not select small business clients carefully. Some clients spent the money for consumption. The 90 percent repayment rate was dropped to 50 percent in 2010.

Microcredit during Conflict

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 perpetrated atrocities and distrust of others based on past experience during the periods of conflict. With such a backdrop, achieving microcredit success might have seemed doubtful.

For instance in Cambodia in 1996, two of World Relief’s staff were killed for a paltry $150 they were carrying (NEXUS, 1996). Palestine for Credit and Development, known by the acronym FATEN, is a Non Government Organization in the Middle East (Palestine for Credit and Development [FATEN], 2006). Approximately 50 percent of its clients are in Gaza with the other half in the West Bank. The staff assessed its problems and analyzed potential solutions, with the result being within three years of activity. The problems were severe as the Israeli wall being built; growing incursions of occupying troops; daily bombings and attacks on staff and client homes; complete closure of many areas; deaths of FATEN family members; restricted movements that often around 25-30 checkpoints; inability to transport raw materials or finished products all combine to make economic transactions very difficult. The FATEN has 71,235 clients (99 percent female), at an average of $577 operated 67 staff and a sophisticated management information system to track all necessary information. Impressively, operational sustainability has achieved 117 percent (Caritas Internationalis [Caritas], 2005).

Similarly, the United Nations Relief and Works Agency was started after the first Gulf War in 1991 and focused in urban centers where there is a density of Palestinian refugees. People were in fear of trying to start microenterprises.

A recent academic report in a Christian Science Monitor reveals that some 10,000 Afghan women have been trained in the past couple of years to become entrepreneurs (Montero, 2006). The war widow once scratches out a meager existence for herself and her four children by going door-to-door, asking residents if she could wash their clothing for a little money. After she received training and learning how to produce decorative ornaments, as well as business skills, she declares that she want to make herself self-sufficient. Approximately 75 percent of Afghanistan's micro entrepreneurs are female. They are empowering the next generation of girls and believe they have a significant role to play in national reconstruction.

The experience in East Timor after its conflict subsided; the World Bank initiated, a Community Empowerment Project (CEP). A credit component was added to the recovery programs. It initially consisted of loans to build up some 864 microenterprises at a total amount of one million dollars. Of these, 54 percent were given to small street stores or market stalls. Other loans went to livestock production, fishing and small-scale agriculture. Empirical research data results were a surprise because the repayment rate was extremely low, a mere 31 percent (Moxham, 2004).

Peer Monitoring and Loan Repayment

There are three basic characteristics of microcredit programs by the Grameen Bank as follow (Guttman, 2007):

1. Joint liability. Loans are provided to individuals who belong to a group in community. Group members are taking responsible for the repayment of their peers' debts.

2. Small installment payments. In traditional Grameen Bank loans are repaid in small, weekly installments. The installments are collected by a bank worker in a clients meeting approximately six to eight groups, each of which has five members. The repayment of the loan in weekly installments can be pressured by their peers, as well as by the bank worker.

3. Dynamic incentives. Peers pressure on defaulter is the use of distinct dynamic incentive.

The three advantages of peer lending over conventional, individual lending:

1. Minimizing effect of the adverse selection. The problem of adverse selection arises in credit provision due to asymmetric information of the prospective borrower. The qualities of borrowers are likely to succeed in the projects funded by loans. Borrowers, who are internally motivated to repay their loans, can be called safe borrowers and borrowers who lack these characteristics can be called risky borrowers. If the microcredit programs cannot identify the borrower's type will tend to attract risky borrowers who have a relatively high probability of defaulting.

2. Minimizing ex-ante moral hazard. Borrowers often have private information of the amount of effort to making their projects succeed using the borrowed funds or ensuring that the funds will be used properly (Stiglitz, 1990; Laffont & Rey, 2003). Borrowers may have a number of alternative projects in which the borrowed funds can be invested. If they choose low-yielding and low-effort projects and then claiming that their projects failed, making repayment impossible. Under the peer lending, this moral hazard problem is minimized, due to the large amount of information that peers know each other activities and can aid in solving the adverse selection problem.

3. Employing social sanctions in order to enforce loan commitments. A third advantage of peer lending over individual lending is the ability of the group to enforce loan commitments by using social sanctions (Besley & Coate, 1995).

Peer liability contracts in theory can lead to higher repayment because borrowers have better information about each other's types, can better monitor each other's investment, and may be able to impose powerful non-pecuniary social sanctions at low cost. Al- Mamun, et al. (2011), measured the effect of group dynamics, peer pressure, peer selection, peer monitoring, and other aspects of social capital indicators are also very straightforward.

Microcredit programs, it is more significant than ever to accurately evaluate the extent to which peer and local advisor by borrowers faced with group liability contracts actually reduces moral hazard (Carpenter & Williams, 2010). These results, this is consistent with evidence that the depth of family relations within a group is correlated with default (Ahlin & Townsend, 2007).Women about to enter a group loan program and then gather managerial data on the members' repayment behavior. In addition to the experimentation which is designed to measure individual propensities to peer under incentives similar to group liability, we collect a variety of the other potential correlates of borrowing behavior and repayment (Cason, Gangadharan & Maitra, 2008). Thus showing that banks can do just as well as peers at monitoring and enforcing loans and generating high repayment rates (Gine & Karlan, 2008).

Socio-economic development is a complex process of social and economic development, the MF activities by using human capital theory and Moral Hazard. Human capital refers to the stock of competencies, knowledge and personality attributes embodied in the ability to perform lab our so as to produce economic value (Becker, 1975). The MF activities group based microcredit model requires every client to assemble in a three month meeting, where clients exchange information and ideas with the Mother's fund staff. Therefore, lack of access to finance can be the critical mechanism that generates persistent income inequality or poverty traps, as well as lower growth. Access to finance increases clients and their household's ability to increase income generating opportunities and employment opportunities, which ultimately lead to increase household (Al-Mamun, et al., 2011), microcredit program on hardcore poor households and their micro enterprise income.

This problem, known as “moral hazard,” has taken on new significance with the rapid spread of explicit deposit insurance (McCoy, 2007). Monitoring in the previous section, we are not interested in the relationship between these peer and loan repayment and also the monitoring propensity of the other people in her loan group. Because overt defaults are rare (and, as a consequence, there is little variation to explain), we adopted a method similar to (Wydick, 1999) to create our dependent variable.

Lastly, the analysis and ask what happens to repayment rates when the chances of not being monitored increase, we find that those borrowers with higher than median chances of not being monitored are 40 percent more likely to incur repayment problems ($p<0.01$). In sum, our results suggest that there is a strong and robust empirical relationship between the propensity of peers to monitor each other and the group’s loan performance. (Carpenter & Williams, 2010)

1.5 Scope of the research

This study focuses on the success of microcredit program the widows from the conflict and valuable woman during conflict atmosphere.

1.6 Definition of term

Drop Out: drop out was defined as those micro finance borrowers who do not repayment.

Peer: peer is the clients of MF activity with volunteers to provide counseling to encourage widowed and valuable woman, which is funded by the profession.

Local adviser: local adviser is the local or villagers who will provide consulting in the area or community. Representatives have been nominated by the community. They are work without salary. The MF activity will provide for the vehicle, allowances on the follow-up visits and attendance.