This document is part of the Microenterprise Best Practices (MBP) Project's series of Technical Briefs on post-conflict microfinance, available at www.mip.org. The series discusses whether and how to use microfinance in post-conflict settings. The first seven briefs are designed primarily for microfinance practitioners. The final brief (#8) is designed for relief organizations considering microfinance for the first time. While experienced microfinance organizations are unlikely to find new information here, they may share this brief with non-microfinance organizations experimenting in this technical area.

- *Brief #1: Microfinance Following Conflict: Introduction to Technical Briefs*
- *Brief #2: Developing a Post-Conflict Microfinance Industry: The Case of Cambodia*
- *Brief #3: Developing Post-Conflict Microfinance Institutions: The Cases of Liberia and Kosovo*
- *Brief #4: Environmental Preconditions for Successful Post-Conflict Microfinance*
- *Brief #5: Searching for Differences: Microfinance Following Conflict vs. Other Environments*
- *Brief #6: Security Issues for Microfinance Following Conflict*
- *Brief #7: Microfinance for Special Groups: Refugees, Demobilized Soldiers, and Other Populations*
- *Brief #8: Frequently Asked Questions on Basic Microfinance Concepts*

Security Issues for Microfinance Following Conflict[1]

In 1996 in Cambodia, two loan officers of World Relief Cambodia were robbed and killed while returning from a weekly community bank meeting. They were carrying about $150.[2] In 1995 in the Philippines, two loan officers from an Opportunity International's Filipino affiliate, HSPFI, were robbed of funds, shortly after withdrawing money from a commercial bank for a group disbursement. In Kenya, FAULU clients responsible for depositing group repayments have been robbed. In 2000, the offices of Besëlidhja/Zavet Microfinance in Kosovo and Urwego in Rwanda were burgled during the night. Computers (including their data of client and accounting records) and cash were lost and damage was done to the offices.

Microfinance institutions that serve marginalized, insecure communities face risks to their staff, clients, and assets. Relatively large amounts of cash are often carried to the communities when loans are disbursed. Smaller—but still tempting—amount are often carried back to banks or offices after payments are collected. Since a core part of microfinance methodology has been to make these transactions open and transparent, anyone in the community may know when and where these events will take place. This creates the threat of robbery, injury, or even murder.

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1 The primary author of this brief is Kenneth Graber, Director of the Microenterprise Development Service Team of World Relief. The brief is based on an unpublished paper written in 1997. The author expresses his appreciation to the many SEEP Network members and their affiliate MFIs that contributed experiences and suggestions to the paper.

2 For additional details regarding this incident, see NEXUS, Number 35, SEEP Network, December 1996.

While this danger exists for all MFIs, it appears to be considerably greater for those operating in areas following conflict. Four primary reasons account for this:

1. **Weapons are available.** Guns, grenades and other armaments do not disappear when a peace treaty is signed. While governments and the international community always attempt to disarm combatants, only a fraction of the arms are usually collected. Many of the rest remain hidden or are sold to others for criminal use. These arms can easily be used, as occurred in Cambodia, to steal as little as $150.

2. **Demobilized soldiers have been trained to use the arms.** Like the weapons themselves, the trained combatants do not disappear when formal fighting ends. Often, demobilized soldiers have few skills with which to make a living—other than those they have developed while fighting. These fighters are frequently young men, even boys, who were forcibly conscripted into armies or rebel groups, thereby forgoing their access to formal education or job training.

3. **Demobilized soldiers or others may feel a "need" to use the weapons.** Without alternative ways to make a living, and often with seared consciences, demobilized soldiers may choose to draw upon the survival skills that they developed during years of fighting. Not surprisingly, some use their weapons to rob others—often harming or killing them in the process. Targets can include microfinance staff and clients carrying relative fortunes to/from group meetings.

4. **The absence of commercial banks increases the risks.** As seen in Brief #2, MFIs in Cambodia in the mid-1990s had no functioning commercial banks to use for cash management, transfers, or other services. These MFIs resorted to extraordinary lengths to operate, including maintaining their own cash vaults. These vaults were usually merely ordinary office rooms reinforced with steel doors and other low-level security measures. MFIs forced to operate in this way are certainly more vulnerable.

SECURITY OPTIONS FOR MFIS

A popular political response to the above situation—which tends to be disastrous for MFIs—is to link demobilized soldiers to microfinance as a way of reintegrating them into economic activities. Unfortunately, demobilized soldiers are rarely experienced in business, often do not know how to make good use of credit, and may be difficult to persuade to repay loans, as described in Brief #7. Alternate programs involving psychosocial support, mentoring, or business training may be better alternatives to propose to donors or governments interested in demobilized soldiers' economic re-integration.

MFIs' security options depend to some degree on the availability of commercial bank infrastructure to hold and move money. Below, three categories of security policies and procedures are provided:

- General security guidelines;
- Steps to take when no commercial banks exist; and
- Steps to take when commercial banks do exist.

GENERAL SECURITY GUIDELINES

These security guidelines are sensible in all microfinance programs, and become even more important in a post-conflict environment. All field staff should receive training on these measures.

- Encourage staff to be continuously aware. Don’t fall into patterns of behavior, and, if a problem is suspected, immediately notify supportive entities in the community such as police.
- Neither staff nor clients should wear uniforms or organizational T-shirts or outfits which may identify who might be carrying money.
- Don’t wear objects of value, such as jewelry.
- Wear clothing and shoes that allows for ease of movement and ability to run if necessary.
- Try not to travel during times of day known to be dangerous, such as at dusk.
- When walking in a group, spread out rather than walk in a line. This way, if one person is attacked, others can run for help.

STEPS TO TAKE WHEN NO COMMERCIAL BANKS EXIST

Quite obviously, MFIs have fewer options when operating in areas where commercial financial structures do not exist, whether due to destruction from conflict or other reasons. In addition, even in some cases where banks do exist, bank policies and practices may preclude them from being used by microfinance (such as for banks that set high minimum deposits and/or that restrict the number of deposits that can be made during a period). When banks are not available to store or move money, MFIs must undertake this function internally. Below are several strategies on how to do this in the safest way possible:

- Some MFIs have developed a system of “quasi-banks”—district or regional offices that are accessible to the clients and operate much like banks (e.g., ACLEDA and Grameen Bank). These offices may be equipped with safes, vaults, and guards.
- Some MFIs practice “safety in numbers.” Loan officers travel in groups of two to four from their offices to the communities. This raises costs unless bank meetings can be grouped by location and time (which again may increase risks). This “safety-in-numbers” practice can also be used when clients are responsible for carrying payments.

- Clients can accompany the loan officer(s) to the MFI's office, or to a reasonably safe location, such as where they can pick up public transportation.

- MFIs may choose to hire more male loan officers, considering them less vulnerable to attack.

- MFIs may choose to have loan officers travel by cars or bicycles rather than on foot, especially for disbursements. However, this may provide a false sense of security.[3]

- Some MFIs have hired security companies that supply armed guards and/or armored vehicles. To accommodate the extra cost of a vehicle into a limited budget, repayment frequency is often reduced from weekly to biweekly or monthly.

These problems are more severe for MFIs with nation-wide branch networks (such as those using credit union or bank models) that need to transfer large amounts of cash between central locations and outlying offices. Steps to reduce risk under these circumstances include:

- Never allow personnel to travel alone.

- To limit the possibility of "inside jobs," only staff who must know are informed of when transfers will take place.

- If available, transit insurance policies and/or fidelity guarantee policies are purchased.

- In Afghanistan, Save the Children has been able to use traditional informal structures for transferring money to branches. For example, the Save the Children office in Kabul gives money to a Kabul-based family member, who in turn instructs family living near the branch office to give the amount (less a fee) to the local Save branch.

As mentioned above and in Brief #5, most of these steps increase the costs of doing business, which has implications for interest rates and for the length of time needed to achieve financial self-sufficiency. Effectiveness may also be compromised by some of these measures. For example, hiring more male loan officers may reduce the program's effectiveness with a largely female clientele. And reduced program transparency—in terms of who has received loans and for how much—may reduce the peer pressures for repayments.

STEPS TO TAKE WHEN COMMERCIAL BANKS DO EXIST

[3] This will obviously vary by context. In both the Cambodia and Philippines incidents described above,
loan officers were on motorcycles.

In areas where banks are at least moderately accessible, many MFIs have taken one or more of the following steps:

1. **Avoid cash loan disbursements.** Rather than having loan officers carry cash to distribute to clients, loan officers carry individual client checks. While this appears to shift the security risk to clients, they may have more knowledge and flexibility about the safest time to convert the checks to cash, or may individually choose to use banks as a way to store their loan capital.

2. **Minimize risks during repayment and savings collections.** These measures may include:

The Role of Technology in Security

Technological options, if available, can play a role in protecting staff and clients. South Africa provides an excellent example. Due to the modernity of its banking system and physical infrastructure, some MFIs can issue loans on ATM cards. Clients use these to withdraw their funds and make repayments at commercial bank ATMs. Unfortunately, these options will only be available in more developed post-conflict environments, but may play an important role over time in increasing security.

- A group treasurer or another member of the group is given responsibility to collect payments and then deposit them into a commercial account.
- Clients make payments to the group treasurer outside of group meetings.
- Other members go to the bank with the person responsible for depositing the money.[4]
- Repayments are broken down into smaller, less tempting amounts by dividing large groups into smaller sub-groups. These sub-groups can then designate a member to collect and deposit members' payments.
- Groups vary the days of the week and locations for repayment meetings. Changing the pattern in this way is similar to guidelines for personal security in areas subject to terrorism.
- On the day of repayment, groups randomly choose the member who carries payments to the bank. This helps prevent "inside jobs," in which a member would collude in advance with an outsider to stage a theft.
- MFIs develop special arrangements with commercial banks to facilitate client payments. This is often necessary because of the small size and high frequency of the deposits. Deposit slip copies may physically be sent to or collected directly by the MFI, or provided in electronic format.
- For a fee, local commercial banks can come to group meetings to pick up or deliver cash.

None of these measures are failsafe. Whenever clients store cash in their homes overnight, they may be robbed and physically threatened. Second, some MFIs with

[4] This also can be done when loan officers collect and carry payments.

illiterate clients have discovered that basing cash recovery in banks may leave clients vulnerable to fraud, particularly when accepting deposits. MFIs have responded by providing clients with highly specific functional literacy and numeracy training. This includes training in bank documents such as deposit slips and receipts. Finally, these procedures call into question the purpose of group meetings, which traditionally have both enforced repayment and served a development function (such as training). When the meetings are no longer required for repayment, they are unlikely to be as closely attended, which may lead to a breakdown in group solidarity and a reduction in repayment incentives. To date, however, there is no evidence to show what the impact of these changes has been to date on clients, groups, or MFIs.

CONCLUSIONS

Without question, there is a direct trade-off between reducing security risks and increasing costs of operations. Because of this difficult trade-off, decision-makers may conclude that certain areas are not economically serviceable until commercial banks are present and/or other factors arise to reduce the increased costs needed for security.

Finally, while recognizing that such incidents have occurred, one must also take note of the relatively extreme infrequency of these events. With the millions of times that money has been carried from office to meeting, from meeting to bank, or otherwise, the paucity of serious incidents is remarkable. One could hypothesize that this indicates that clients value access to financial services so much that they won't "allow" thieves in their communities to endanger their opportunity to continue to receive these services.