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BURUNDI CASE STUDY: ADDRESSING THE DRIVERS OF ETHNIC CONFLICT WITHIN THE MODEL OF FINANCIAL SERVICES DELIVERY

AMAP KG ECONOMIC RECOVERY AMID CONFLICT CASE STUDIES

microREPORT #124

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INTRODUCTION

In the past 15 years, there have been remarkable achievements in implementing microfinance programs in conflict affected countries. Many of the most successful organizations and sectors have focused heavily on the standard goals of microfinance which include addressing poverty in a commercially viable way. While these achievements are commendable, they have fallen short on a few critical issues, one of which has been how to integrate conflict sensitivity within the design and implementation of financial institutions and how the models, services and products offered by these institutions impact the drivers of conflict.

USAID's AMAP Knowledge Generation (KG) research on Microfinance Amid Conflict[1] began in 2003 with a focus on identifying best practices among microfinance organizations in conflict countries. This was later expanded to examine particular populations impacted by war, specifically youth. The focus of research during the last two years of the project is the role of microfinance within broader economic recovery efforts after conflict.

As part of this broader agenda on economic recovery, the AMAP KG team conducted a series of workshops and discussions with practitioners and donors working in conflict affected contexts. Participants at the workshops agreed that there were undocumented examples from the field that could provide valuable lessons to the larger community. To learn more about these efforts AMAP KG issued a call for nominations for case studies. Turame, an MFI in Burundi, was selected and is featured here. The Burundi case study highlights an MFI that integrates conflict resolution training within its institutional development (including loan officer training) and its community bank lending methodology. This addresses the community level drivers of conflict, while building systems and an institution that strives to improve ethnic relations.

First, this microNOTE provides background information on the country context for financial sector development in Burundi. It is followed by the description of Turame's activities followed by a summary of lessons learned and how this experience can be translated to other conflict affected contexts.

BACKGROUND AND SITUATION IN BURUNDI

Since Burundi's independence from Belgium in 1962, hostilities between the Hutus and Tutsis have dominated the country's politics and hindered progress. Events in Burundi have been closely linked with Rwanda's Hutu-Tutsi conflict; an uprising in one country has often sparked fighting in the other.

In 2008, Burundi's population stood at 8.6 million.[2] Hutus comprise 85 percent of the population, Tutsis 14 percent and the Twa -- Burundi's original pygmy inhabitants -- one percent. While Burundi's conflict overwhelmingly hinges

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[1] See www.microlinks.org for more information on this research.

[2] CIA Factbook on Burundi.

on the tensions between its Hutu and Tutsi populations, it is important to note the disenfranchised status of the Twa, who lack land rights, political power, access to education and employment opportunities.[3]

The origins of the Hutu/Tutsi divide are still a matter of debate, with some scholars claiming the distinction to be socio-economic rather than ethnic. While the Tutsis were perhaps once a distinct ethnic group, over time the term "Tutsi" came to refer to any member of the aristocracy; through intermarriage and social-mobility, the ethnic lines separating Hutu from Tutsi became less clear-cut.

Europeans, however, interpreted Burundi's hierarchy as being strictly racially-based. The Tutsi were seen as the natural elites, proto-Europeans of possible North African origin. Under Belgian rule, those with 10 or more cattle were automatically pronounced Tutsi. Once established, the racial lines were reinforced, internalized and institutionalized through identity cards, social rank and colonial privilege. The Tutsi monarchy and aristocracy held power as before, while positions within the army, schools and government were filled solely by Tutsis.

Upon independence, the king of Burundi established a constitutional monarchy in which power would be shared equally between Hutus and Tutsis. In practice, however, Tutsis still held disproportionate control over the nation's military and government institutions. Hutu resentments over the preeminence of the Tutsis remained high, as did the Tutsis' reciprocal anxieties.

In 1965, Burundi's Hutu prime minister was assassinated, touching off a wave of Hutu revolts and government crackdowns. Alarmed by the scene in Rwanda, where the Hutu regime was killing the Tutsi population, Burundi's Tutsis consolidated their hold over the police and the military. Following a scramble for power within the government in 1966, the monarchy was dissolved and a Tutsi military government emerged in its place. Ethnic tension and civil unrest persisted into the early 1970s.

In 1972, a series of Hutu attacks, leaving thousands of Tutsi dead, sparked massive Tutsi reprisals. Lists of suspected rebels and their sympathizers, supporters and family-members were assembled and distributed throughout the country. Within three months, an estimated 200,000 Hutus were killed by Tutsi soldiers and militias. Another 150,000 Hutus sought asylum in neighboring countries.

Coups and ethnic tensions kept Burundi mired in violence and instability through the 1970s and 1980s. A series of Tutsi military regimes held power into the early 1990s, when democratic reforms paved the way for the election of Burundi's first Hutu president in 1993. When President Ndadaye was assassinated by Tutsi officers months later, the nation quickly fell into civil war. An estimated 300,000 people were killed in the conflict, while hundreds of thousands more were displaced. Though Hutu parties ultimately regained control of the government and the presidency, the security situation remained bleak.

In 1994, the plane carrying the presidents of Burundi and Rwanda was shot down, killing both Hutu leaders. In Burundi, the killings fuelled violence and unrest, while in Rwanda, the conflict devolved into outright genocide. Following the election of Burundi's third Hutu president, the main Tutsi political party withdrew from the government. Fighting between Hutu and Tutsi factions intensified, while the violence and instability in Rwanda further undermined the security situation in Burundi. The Conseil national pour la défense de la democratie (CNDD)/Forces pour la défense de la democratie (FDD) took power, with its leader, Pierre Nkurunziza, assuming the presidency. From 2004 to 2006, a United Nations force (ONUB) was dispatched to Burundi to oversee the ceasefire agreement and help manage the disarmament and demobilization of the various factions.

[3] http://www.irinnews.org/InDepthMain.aspx?InDepthId=9&ReportId=58632&Country=Yes

While the country now appears to be on a tentative path toward peace and stability, deep wounds remain. Along with the drive toward stabilization, Burundi must also contend with the challenge of resuscitating its economy and agricultural base. Agriculture has traditionally been the mainstay of the economy, accounting for 48% of GDP, 93% of its workforce and all of its exports. War and unrest caused massive disruptions of planting and harvesting activities; privation, malnutrition and diminished land productivity have been some of the consequences. Due to conflict and drought, Burundi, once self-sufficient, is now dependent upon food imports to feed its population.

MICROFINANCE SECTOR IN BURUNDI

Unlike many other high profile conflict countries that have received significant amounts of donor assistance once a peace agreement was signed, Burundi has generally fallen outside the radar screen and has not benefited from large donor projects. As such, traditional donors that promote financial services after conflicts have by and large been inactive in Burundi.

As such, the microfinance sector in Burundi is still relatively young and underdeveloped. There are three types of actors allowed by the Central Bank to engage in microfinance in Burundi: savings and credit cooperatives (SACCOs), microfinance institutions (societe anonyme) and multi-sector projects. The Central Bank is in the process of establishing a unit to supervise microfinance institutions. It has yet to release specific information pertaining to the taxation of microfinance as well as reporting requirements.

Most recently, some commercial banks are beginning to explore the microfinance market. The country has had very negative experiences with "fly by night" MFIs which have collected people's savings and then closed shop. Two such MFIs exited and have greatly impacted the public's perception of microfinance. Since then, the government has instituted a more stringent registration and licensing process for MFIs.

SACCOs tend to be older and larger in scale, serving salaried staff or higher income markets. Average loans with SACCOs can reach up to $10,000 compared to $50 for an MFI.[4] The national microfinance network in Burundi, le Reseau Institution de Microfinance (RIM), is made up of 15 members, most of which are registered as societe anonyme. It was formed in 2002 by six MFIs in the country and has grown to include one bank and several cooperatives. In 2005, the sector reached over 35,000 borrowers and over 211,000 savers.

PROJECT DESCRIPTION

Turame is a microfinance institution that was established by World Relief in 2004. The organization was awarded the top MFI in the country in 2006. Turame has grown over the past 3.5 years and has an outstanding portfolio of $396,130 as of December 2007 and a portfolio at risk (30 days) of 1%.[5] The organization plans to grow steadily over the next five year period. Its five year business plan estimates expansion of outreach from just over 4,000 clients at the end of 2007 to 28,000 by the end of 2011. Growth is restrained somewhat due to funding limitations, staff capacity and absorption issues as well as internal systems, which would require substantial revisions for significant expansion.[6] World Relief has established MFIs in several post-conflict countries including Rwanda, the Democratic Republic of Congo, and Liberia.

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[4] This average is taken from Turame, serving as an example of other MFIs in Burundi.

[5] For a definition of Portfolio at Risk, please refer to the CGAP Consensus Guidelines for a detailed explanation of microfinance terms and definitions (http://www.cgap.org/p/site/c/template.rc/1.9.2784).

[6] For example, Turame currently uses Loan Performer for its MIS. This has proven reliable and sufficient for its current scale and planned expansion. Should it grow substantially, a new MIS solution would be required.

Turame has been supported by USAID funding since inception through grants to World Relief. Its current USAID grant will come to a close in 2008. In 2007, Turame expanded beyond USAID funding to access other private donors. It is exploring borrowing from Kiva.org, but has yet to access commercial sources of capital. Turame plans on introducing savings products in 2008 and is currently designing the products. As per regulatory requirements, Turame is able to mobilize and intermediate savings provided that 10% reserves are maintained as a deposit with the Central Bank.

Turame is staffed by 60 employees, 27 of whom work in the head office in Bujumbura. The organization has two main branches and two smaller satellite or sub-branch offices. Sub-branches are staffed with a loan officer supervisor and loan officers, but without any administrative of accounting sonnel. Each sub-branch can supervise numerous points of service or communities within the vicinity of the sub-branch. Loan officers spend a significant amount of their time traveling to and from communities served and only one day per week at the sub-branch. Its growth plans call for increasing outreach within its existing branch network so as to further improve its efficiency without incurring additional establishment costs of new branches. Turame's board is made up of seven members, two of whom are World Relief employees, one is from a donor agency and two are local community members. The local representatives are a lawyer and a customs officer who is a banker by training and previously worked for World Visions microfinance program. The board has been actively only in the recent past, after Turame registered independently from World Relief.

Turame uses a community banking methodology. This methodology is effectively building local institutions that are self-selected and self-managed. Community banks are registered formally as Community Based Organizations (CBOs). Community banks select their representatives which include a president, vice president, treasurer, secretary and two advisers. Turame first goes out to communities to assess the demand and to meet with authorities to obtain buy-in for establishing a presence. Turame then does community outreach at churches and other community centers to explain the methodology and products on offer. Once community interest is evident, Turame then begins operations by asking individuals to self-select into groups of 30 to 45 people. Groups to date have been approximately 90% women, which is highly encouraged by Turame as it believes that women are the most excluded from existing financial services and also the poorest in the communities served. While most Turame clients are illiterate (estimated 80%), groups elect officers who are literate and can maintain the accounts of the community bank.

Once groups are formed, the community bank training begins. This takes place over one month through the normal weekly meetings which are established depending on client availability. The training is the hallmark and the differentiating aspect of the program. The training is lead by the loan officers who were themselves trained to deliver the curriculum. Loan officers underwent a two-week training of trainers process. The training is composed of four major modules: credit and savings, group and association formation and management, peace and reconciliation, and elections and group administration. It is delivered to clients over the course of one month, through two or three weekly meetings of approximately one hour each. Turame does not currently cost out the training component of its activities so while it has a perception that the upfront training costs of the model are high; it does not actually track this.

Loan Officer peace-building curriculum: *Coaching for Peace*	
Session 1	Seeing relationships in a new way: transforming conflict through negotiation
Session 2	Seeing relationships in a new way: redeeming conflict through forgiveness
Session 3	Helping others through listening
Session 4	Helping others get to their heart in conflict
Session 5	Coaching others through healing wounds of conflict

The community banks meet on a weekly basis to collect and issue loans and savings. Savings are kept internally with the group although they are monitored by Turame loan officers. The groups do not provide interest on savings, instead the funds serve as guarantee for outstanding loans. Groups are asked to maintain a savings balance of 10% of outstanding loans. Loan cycles allow for increases in loan sizes, however this is kept in line with savings balances. First cycle loans per client are a maximum of 60,000 Francs ($51 USD), increasing to 80,000 Francs ($68 USD), and 100,000 Francs ($85 USD), and so on. Within the community banks, individual loans are also provided. Solidarity group loans are also possible for those clients who have completed at least five cycles under the community bank model. In this case, clients are eligible to "graduate" into a group lending product directly from Turame. Solidarity group loans are for groups of 5 to 10 individuals, all with excellent repayment history under the community bank. Repayment is twice a month, as opposed to weekly. Community banks meet weekly and require weekly repayment. Loan officers participate in each and every community bank meeting. Interest rate paid on the loans is 3% monthly on a flat basis. Additionally, as of February 2008, clients also pay a 2% upfront commission to cover paperwork.

Most of Turame clients are market vendors, with few active in agriculture or manufacturing. This is partly a result of the products it offers which are more tailored for trade activities.[7] The ethnic make-up of Turame clients is very mixed, which is a major achievement so soon after the conflict. Groups are also mixed religiously with Protestants, Catholics and Muslims represented. When loan officers perceive there is ethnic or religious discrimination in the group, they intervene and negotiate with the groups.

[7] Weekly loan payments are appropriate for high turnover businesses such as trade and less effective for businesses which require longer periods for production and sale of inventory.

Clients at a community bank meeting

While still a relatively young institution, Turame is only 55% operationally sustainable and thus still a long way from fully covering its costs. The organization will remain dependent on donor assistance for its growth. The organization estimates that it can achieve sustainability within a 3 to 4 year timeframe. For African MFIs, this would be a normal growth and sustainability trajectory, however it is not the experience in more recent post-conflict microfinance markets like Bosnia and Herzegovina or Afghanistan in which MFIs have become sustainable within a 3 to 5 year timeframe from their inception. These countries have benefited greatly from large donor support projects that have provided technical assistance, funding to capitalize the MFIs and broader sector policy development which have supported the retail growth of many MFIs. In Burundi, the situation is quite different and MFIs have not received broad based support. Turame's slower move toward sustainability is caused by many factors including: its relatively small outreach and portfolio, its high operational costs, inefficiencies related to communication and information systems, reporting and data collection, and the methodology itself which has high upfront administration costs related to group formation, training and capacity building.

The conflict resolution training has been conducted in house for all staff in the past 1 to 1.5 years. Prior to this, Turame did not include this training as part of its staff development, however it based its hiring and teaching on a non-discriminatory and reconciliation platform, encouraging different ethnic groups to work and live side by side. Interviews with staff indicate that the impact of the training on day to day operations of the organization have been considerable. As one loan officer in Bujumbura noted "clients benefit from the training… when a problem happens…they are able to resolve it." Interviews with community groups also revealed the benefits of the training. One client noted that "before we didn't know the importance of working in a group." Another client noted that "we learned to love each other, learned about reconciliation and also how to think and put yourself in someone else's shoes."

These same benefits have also accrued internally among staff. The director of Turame noted that the number of staff conflicts has been reduced since undergoing the training as now staff know how to deal with conflicts. While the causes of internal conflicts can vary, the director noted that the trauma experienced by everyone in Burundi, including the staff, continues to impact their daily lives. The training has helped individuals understand how this trauma is manifested in the day to day and has helped individuals empathize and internalize the concepts of reconciliation.

LESSONS LEARNED

With few microfinance organizations prioritizing and focusing on conflict resolution, there is limited experience and evidence available. This case study highlights some of the main lessons that were evident from Turame. It is important to note, however, that understanding conflict drivers and integrating this understanding within the design and implementation of microfinance programs is an area of study which requires considerably more research and testing. There was clearly perceived impact of such training by Turame and its staff at the client level, however this is anecdotal based on staff experiences, as opposed to rigorous analysis that controls for biases and other variables which may impact results. Below we present some of the main lessons learned which may be applicable to other countries.

- **Investing in conflict resolution training has residual benefits to the overall organization:** The original intent of Turame's training was to promote ethnic reconciliation and overall peace building within the communities in which it works. Training of staff was delivered in a training of trainers format so that they could relay the lessons and use the materials for training at the community bank level. The impact of this training has been far deeper than the community banks and has been felt throughout the operations of the organization. This has reduced the intensity and level of internal conflicts that often lead to human resources issues. Additionally, it has allowed staff to internalize the overall vision and mission of Turame which aids them in relaying these principles on every level of their work.
- **There is a tradeoff between capacity building/training and sustainability of the institution**: While the intangible benefits of the conflict resolution training were visible and well articulated by Turame management and staff, the very tangible cost implications has been one of the major trade offs. Other research conducted under AMAP[8] has shown that community models can be effective in conflict sensitive environments. However, community models require significant capacity building which is expensive and thus reduces an MFI's ability to attain self-sufficiency. Adding conflict resolution as an additional goal of the capacity building initiative adds further costs to the model. Turame and other MFIs operating such models must consider this trade off as they grow. In Turame's case, there is recognition that further efficiencies are needed and it is exploring how to do this in the future. For example, Turame's information system requires the manual delivery of files, receipts and documents to the branch and head office. This greatly increases the cost of transport as well as reduces the efficiency of front-line staff who are using their limited time to transport documents as opposed to creating and supporting the community banks. MFIs that utilize a costly methodology, such as community banking, must compensate by creating efficiencies elsewhere. For example, MFIs can increase the volume of lending so that per loan costs decrease.[9] Turame is well aware of this and has introduced group lending to expand outreach, for example, to help address some of these methodology based cost issues.
- **Loan officers may not be the best mechanism for client-level training on conflict resolution**: While loan officers have clearly benefited heavily from the conflict resolution training, many feel overwhelmed by the added responsibility of training delivery to clients in subject matters in which they themselves are newcomers. Some voices within the staff indicated the desire to have dedicated specialists who would work with loan officers to deliver this component of the capacity building directly to community banks. Further specialization of responsibilities may have immediate cost implications for the organization but it may also have more substantive impact at the community level and may be more efficient in the longer term. Also, there is the added question of whether this is the best use of loan officer time, given the organization's need to continue to expand to reach more clients. However, some staff members prefer the current breadth of responsibility as they feel it allows them to hear the problems of their clients and to fully understand the groups and their needs. As one loan office indicated, "it is better to know your clients as it's easier for them to blame another employee if there is more than one person giving them information."
- **Training plus and not just training alone**: It is important to note that Turame's overall vision and methodology builds on the core themes of ethnic reconciliation and tolerance. It is not only the training that is delivered to staff and clients that provides this message, but all aspects of the Turame approach from its outreach methods to group formation to its internal hiring and operations. When Turame does community outreach, it explicitly states to community leaders and potential community banks that groups should be representative of the communities in which they reside. This means inclusive of different ethnic and religious groups in the communities served. Turame has refused to work with Thus the training delivered by Turame reinforces what is already felt and experienced by staff and clients.

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[8] See the AMAP KG case on conflict and microfinance highlighting NUBL in Nepal.

[9] See for example the AMAP KG case on Child Fund Afghanistan (CFA). In this case, CFA has expanded outreach of its model beyond its original narrow market segment of vulnerable households in order to achieve scale to improve its financial viability.

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