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Exploring the Frontier in Microfinance: Faith-Based and Interfaith Microfinance Collaboration in Conflict-Affected Environments

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Abstract

The impact of microfinance has been heterogeneous where variant microfinance programs have a greater impact in some countries and for some borrowers, but not much in other. In reviewing the industry from this view, stakeholders will find that faith-based microfinance organizations have the potential to be the ideal model to manage the pressures of both strict economic-system microfinance and social-impact targeting microfinance. That is, faith-based microfinance can and have learned to be effective in learning from other variant programs. If there is a frontier, it might be the ability of faith-based microfinance organizations to be a catalyst in providing ethical and egalitarian loans, as well as creating a base of reconciliation in conflict-affected environments. Moreover, in fragile and extreme poverty settings characterized by religious conflicts in North Africa and the Middle East, Christian-based and Islamic microfinance organizations appear to fall short in affecting substantial change. That is, they have not effectively associate development issues with local religious beliefs in which the invited community norm setters would buy into. Overall, the article explores and finds that collaboration between Islamic and Christian-based microfinance organizations might be crucial for not only enlarging funding from public and private sectors, but also improving cross-religious mechanisms to scale impact for their clients of different faiths or no faith.

Keywords: *Microfinance, Poverty, Refugees, Innovation*

1. Mapping the Today's Microfinance Schism to Understand the Next Frontier of Faith-Based Microfinance Innovation

Although this paper does not directly address microfinance in context of the Covid-19 world, a growing number of researchers is starting to see the pandemic as an opportunity for the microfinance industry to resolve its debates and shortcomings (Kumaraswamy, 2021; Bull, 2020; Diaz et al., 2020). To be sure, even before the pandemic, the microfinance industry has had its share of crisis in the past few years and can be said to be at or close to an inflection point (Lascelles and Mendelson, 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016). Specifically, microfinance as a bottom-up development — once considered unequivocally a good thing — has gone mainstream led by commercially-oriented providers of whom have included former NGOs who turned into for-profit lenders. Consequently, this change has brought on mainstream problems such as client over-indebtedness and poverty traps (Lascelles and Mendelson, 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016). For many who see microfinance as a socially valuable undertaking, the mainstream characteristics have caused microfinance to lose its reputation and its moral appeal. From the socially-oriented perspective, when mainstream microfinance tries to attract private, profit-oriented investors through initial public offering listed on a stock exchange, this clearly indicates "mission drift" where "microloan-sharking" is now part of the industry (Epstein and Yuthas, 2011; Casselman and Sama, 2013; Gutiérrez-Nieto et al., 2017). For others who see the commercial approach as a solution to financial viability and wider access to finance, these mainstream problems are being addressed with appropriate regulation and demand-driven products. From

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the commercially-oriented perspective, many of the noted unethical practices can be traced back to excessive commercialization (Schimdt, 2012). Thus, while excessive commercialization is needed to be regulated, modern microfinance must to some degree have a commercialized strategy in order to professionalize and integrate communication technologies that could foster the industry's sustainability (Lascelles and Mendelson 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016).

Notwithstanding, there are others who have long argued for the false choice between commercially-oriented and socially-oriented microfinance, or sometimes referred to as the debate between the institutionalist approach and welfarist approach (Woller et. al., 1999; Morduch, 2000; Addair and Berguiga, 2016). In brief, the institutionalist approach sees the commercialized microfinance as necessity for continued expansion and greater efficiency, whose incentives to innovate could scale financial inclusion as well as integration into the formal provision of financial services. Meanwhile, the welfarist approach — taking advantage of subsidies, grants, and donations– is focused and seen as more vital for social impact in reaching and providing better access to financial services to the poorest customers and the poorest areas. According to the false choice perspective, this dichotomous debate on microfinance has been nonproductive, and that it would be more helpful to "bridge" the two approaches in order to see a common ground (Woller et. al., 1999; Morduch, 2000; Addair and Berguiga, 2016). For example, the underlying principle among the variant microfinance programs — both subsidized and non-subsidized — is bonding social capital. That is, while some microfinance lenders have shifted from their roots in non-profit because they see the benefits of becoming a corporatized microfinance bank, some still utilize social capital channels such as self-help groups or joint liability groups in order to be efficient and effective (Kanak and Iiguni, 2007; Postelnicu and Hermès, 2018). On the other hand, socially-oriented microfinance lenders have explicitly leveraged bonding social capital within the operational environment to decrease operational costs. However, some of these lenders are recognizing that commercialization of the industry has attracted impact investors and fintech investments of which could be an opportunity to create other types of social capital in enhancing financial performance for themselves and their clients (Postelnicu and Hermès, 2018).

The above endeavor to move towards a common ground could potentially open up new thinking and new learning for the stakeholders of microfinance to resolve its debates and shortcomings. From this view, various kinds of microfinance programs — socially-oriented, faith-based, commercially-oriented, corporate-based, and state-run oriented —are essential to meet the world's unbanked adults whose needs are diverse and are directly linked to their locational settings (Rosengard, 2004; Rosengard, 2000). One of the key unresolved debates is that while more than 140 million working poor have received microfinance loans, the impact of financing to unbanked borrowers on average has not meaningfully increased household income, enterprise profits, or fueled an escape from poverty (Kumaraswamy, 2021; Banerjee et al., 2019; Banerjee et al.,2015; Karlan et al., 2016). For some researchers, this "modest" impact possibly reflects the still significant knowledge gaps in understanding the variant microfinance programs that have worked in certain settings and for certain borrowers, and what aspects of such programs can be learned (along with how those aspects can be replicated) by other programs (Kumaraswamy, 2021; Karlan et al., 2016). Specifically, rather than primarily looking at the overall impact of microfinance around the world, more focus should be given to the heterogeneity of the impact results. In so doing, perhaps it would be more productive to know that variant microfinance programs in particular countries could unlock a poverty trap for borrowers who can develop or have entrepreneurship ability; or what variant programs could empower those who are very poor with very little resource (Banerjee et al., 2021, Banerjee et al., 2019; Banerjee et al., 2015). In such context, it would be more fruitful to see the welfarists and institutionalists as representing two broad approaches in which each could learn from and collaborate with each other. In so doing, it could equip the microfinance movement with the know-how in how to effectively and efficiently serve the unbanked adults who live in a world that is more volatile, uncertain, complex, and ambiguous (Kumaraswamy, 2021).

Perhaps what's most interesting is that, if stakeholders were to take stock of the impact and models within the socially-oriented microfinance, they might find that faith-based microfinance represents the path forward. That is, faith-based microfinance has the ability to play a dual role of continuing the core values of and exploring the new frontier for today's microfinance movement. Firstly, faith-based microfinance organizations have shown a greater capability to be more connected and empathetic to the needs of the working poor and micro-entrepreneurs; and inherently more obligated in how to respectfully operate their microfinance programs within the formal and informal rules of a geographical and institutional context (Hoda and Gupta, 2015; Hoda and Gupta, 2014). Furthermore, faith-based microfinance has shown a greater capacity to create and develop social capital for both their clients and for themselves — potentially bridging and linking with key stakeholders to get access to resources and bargaining power (Hoda and Gupta, 2015; Hoda and Gupta, 2014). Notedly, if straightforward but informed tweaks can change microfinance performance, faith-based microfinance programs need not result in efficiency loses from lower interest rates in which being socially efficient can facilitate and result in being more financially viable (Djan and Mersland, 2017; Hoda and Gupta, 2014; Mersland et al., 2013). Yet, there are perspectives that argue socially-oriented or development-focused microfinance programs regardless of religious orientation be equally or more effective; or that faith-based microfinance is not benign and should be viewed as a controversial schema in development policy and discourse (Clarke, 2010; Clarke, 2008).

However, if the diverse developmental needs of the poor throughout the world demand a number of sound models of microfinance, then future research may want to know what operational features of faith-based microfinance have been successful or which ones have the potential to be successfully replicated; and/or under what geographical and institutional contexts have faith-based microfinance has performed well or not done well. While operational comparisons between faith-based microfinance programs and secular development-focused microfinance programs are few, there are key differences due to the former's faith background and perspectives that have both positive and negative externalities. Firstly, faith-based microfinance can have greater access to the availability of funds as well as having strong incentives to seek all forms of capital. The conventional thinking is that socially-oriented microfinance operations should move away from donor financing or at least should reduce their dependence considerably. For faith-based microfinance organizations, the kind of work that they do, as a first mover of low-interest loans along with humanitarian relief, will require philanthropy from both faith-based and non-faith-based institutional donors (Brodsky, 2019; Clouse, 2018). But they also recognize that philanthropy and government-subsidized funds are not enough, they are starting to diversify their funding and exploring appropriate debt-based and equity-based investments from public and private sectors. For example, Catholic Relief Services (CRS) and its microfinance programs rely on funding from USAID, international development banks, and corporate foundations in which such strategy is not to indulge the investors. Instead, CRS has started to catalyze and leverage all appropriate resources in promoting human development and alleviating suffering (Brodsky, 2019; Clouse, 2018).

A second difference between faith-based and secular development focused is that, in the former, faith can have influence in how products and services are designed in which there is an explicit intentionality. That is, faith-based microfinance tends to see their work as mission-driven where its products and services should not only allow the working poor to reach their fulfillment more fully and more easily, but also that the working poor is invited to engage and lead in bringing about such social changes (CRS, 2013; Saad et al., 2020). For example, several Islamic microfinance and Christian-based microfinance organizations are exploring a more pristine environment for partnership and subsidiarity, zero interest lending, profit and loss sharing, and borrower ownership in microfinance services (Saad et al., 2020; Hoda and Gupta, 2015; Saad et. al., 2013; CRS, 2013; Sama, 2009). Thirdly, faith-based microfinance organizations and their objectives to address the root causes of poverty with focus on some of the poorest can have inherent opportunities in a host country. These include being the first-mover in providing ethical loans and humanitarian efforts in countries that are marked by extreme poverty, fragility settings, or post-crisis situations. Lastly, faith-based microfinance brings intangible resources to broader development goals such as universally applicable values and objectives, especially when a social-economic crisis breaks out. However, when the intentionality and objectives of faith-based microfinance are not aligned with the interests of local stakeholders or that local stakeholders do not buy into the "shared" values — due to discriminatory or controversial practices that are based on gender, religion, race, ethnicity, or caste — potential crises can arise in such situations. The concern of deepening religious polarization is warranted and, thus, it is a requisite for faith-based microfinance organizations to adhere and work closely with UN's policies and conflict advisors on peace and security (OECD, 2017).

In general, the paper is not only to explore the premise that faith-based microfinance could be a potential tool for rebuilding post-conflict economies, but also the potential opportunity for Christian and Islamic microfinance organizations to collaborate that would enhance each other know-how in being a catalyst in building social capital and reconciliation. To illustrate, in Egypt's village of Al Dabiyyah where sectarian violence between the area's majority Muslim and minority Christian populations had erupted, CRS implemented peace-building program – TA'ALA or Tolerant Attitudes and Leadership for Action (Gamer, 2015). TA'ALA was in part funded by U.S. State Department Bureau of Democracy to facilitate influential Muslims and Christians to actively collaborate in resolving conflict and promote tolerance. While CRS have programs for job and business training for young adults, they did not have a microfinance program. Perhaps, this is because they did not have enough experience how to make their lending Shari'ah-compliant. Here, CRS could have collaborated with an established Islamic microfinance organization that would mutually benefits for both programs. In the case of Al-Amal, their mark up of *murabahah* ranges between 14.5 percent for purchases more than $5,000 and 24 percent purchases below $5,000. Thus, there has some reports that their Muslim clients had asked whether these "mark-ups" were higher than the interest rates charged by competing non-Islamic microfinance organizations (Alathary, 2013). Here, Al-Amal could have partnered with CRS who have operations in Yemen, particularly on learning on how to access grants from international donors such as USAID; in turn, CRS could leverage their collaboration with Al-Amal in enhancing their peace building and religious tolerance projects in Yemen. In general, in post-conflict communities such as those in Egypt and Yemen, faith is a salient feature of identity where violence and discrimination against religious groups by governments and rival faiths are a growing reality (PEW, 2019). In other words, while there have been efforts for Orthodox, Muslim, Jewish and Christian microfinance institutions to work together, there are few partnerships despite the culturally plural circumstances in which humanitarian crises arise today (Clarke, 2008; Clarke, 2010; Clarke, 2018; Backeus, 2009).

To this end, this paper will explore the utility of Islamic microfinance and interfaith collaboration between Islamic and Christian-based microfinance organizations in the rise of post-conflict environments characterized by religious frictions. Although the following sections are more exploratory and theoretical in their propositions and assertions, the aim is to provide new thinking and highlight knowledge gaps for today's microfinance movement. Thus, practitioners and researchers working in microfinance can better understand how faith-based microfinance programs can serve the different needs of the unbanked adults living in a more volatile and fast-changing world. The paper's optimism is that such endeavor could be a starting point to better isolate and understand the impact of faith-based and interfaith microfinance collaboration.

2. Framing Faith-Based Microfinance Interventions in Fragility and Post-Conflict Environments

According to the UNDP (2019), fragile states and post-crisis situations are expected to increase in frequency, and perhaps also in ferocity. In such settings, restoration is not necessarily 'starting from scratch.' Additionally, destruction through conflict will not necessarily minimize the challenges existed before the crisis, but does require reform-minded officials even where there's no prioritized reform agenda within the government leadership (UNDP, 2019). Notedly, in many conflict-affected situations, poverty is stagnating or getting worse. The World Bank estimates that the majority of the world's extremely poor people will live in fragility and conflict-ridden areas (Corral et al., 2020). Notedly, 43 economies in the world with the highest poverty rates are in fragility and conflict settings and/or in Sub-Saharan Africa (Corral et al. 2020). On the one hand, the above clearly demonstrates why addressing fragility and post-conflict is vital for poverty goals of which need immediate action. But, on the other hand, evidence of the connection between public spending, institutional restoration, reform, and resilience is sparse in these environments (UNDP, 2019). Nevertheless, the concept of post-conflict microfinance as an intervention has emerged to address the extreme poverty in conflict-affected settings. For researchers, the debate has centered on where, when, and how microfinance can work in fragile countries and post-conflict locations.

Although there are those who have argued that microfinance is not a conflict resolution tool, few environmental factors were found that entirely precluded microfinance. However, there are a host of obstacles and challenges in fragility and post-conflict settings on the other. Here, case studies on post-conflict communities — in Guatemala, Kosovo, Sierra Leone, Rwanda, Uganda, Iraq, Bosnia and Herzegovina, and El Salvador — found that post-conflict microfinance institutions will have to restore social capital just to ensure repayment (Nagarajan and McNulty, 2004); and will need to invest in community-building or build relations with trusted actors to gain the trust of the community (Marino, 2005). Consequently, because the current post-conflict settings often cannot provide the "essential" permanent institutions, microfinance by default becomes the key potential development institution to reduce human cost of conflict and to facilitate recovery. However, microfinance organizations must be mindful not to exacerbate tensions or fault lines in the community they operate in. In general, there have been encouraging experiences and positive reports from post-conflict countries — such as Angola, Bosnia and Herzegovina, Guatemala, and Uganda — that increases in various types of social capital and women's decision-making power are possible as a result from microfinance (USAID, 2001; Marino, 2005; Meissner, 2005). Therefore, the above perspective should warrant more field research to understand tangible and intangible resources and capabilities of microfinance in post-conflict which could better the chances for success in other conflict situations (Gunter, 2009; Meissner, 2005; Casselman et al., 2014; Duval, 2015; Kachkar et al., 2016a; Osman, 2020). Overall, there is an emerging phenomenon in which microfinance is being used as a facilitator or a catalyst in post-conflict economic recovery and peace-building.

In this new phenomenon, there is an important recognition that one of the most overlooked aspects of fragile states and post-crisis situations is that religion has not been put into its proper context – its role in conflict dynamics (Kaplan, 2014; Clarke, 2018). That is, religion does not play a large role in the measurement of fragile state and post-crisis indexes – whereas government effectiveness, economic dynamism, demographics, and violence are weighted heavily (Kaplan, 2014). Yet, by many accounts, there has been a dramatic increase in the political influence of religion or "political theology" in the past forty years – the matter of how religious actors think and promulgate their ideas (Clarke, 2018; Toft et al., 2011; Norenzayan, 2013; Moghadam, 2003). According to one study, the portion of the world population adhering to Catholic and Protest Christianity, Islam and Hinduism jumped from 50 percent in 1990 to 64 percent in 2000. In addition, about 80 percent of the world believes in [a] God of which increased from 73 percent in the early 1990s (Toft et al., 2011). One of the key concerns is that the vast majority of today's terrorist acts, especially suicide attacks, have a religious dimension (Toft et al., 2011; Norenzayan, 2013). Therefore, in recent years, some scholars have tracked the trends in conflicts that have religious dimensions or religious civil wars, although conflicts that are called religious have been more accurately defined as multidimensional (Kaplan, 2014).

According to a study by Pew Research Center (2019), social hostilities with ethno-religious dimensions are more prevalent now than they have been in the past decade. In the same report, social hostilities are measured by acts of which include religion-related armed conflict or terrorism, mob or sectarian violence, sexual harassment over attire for religious reasons or other religion-related intimidation or sexual exploitation. Here, the number of countries with "very high" religious hostilities rose from 39% to 54% from 2007 to 2017 (Pew, 2019). In terms of interreligious tensions and violence, 57 countries in 2017 have experienced such hostilities (Pew, 2019). In terms of religious hostilities around the world, in 2017 the highest level is in the Middle East and North Africa, while the biggest increases over the last decade include Europe and sub-sub-Saharan Africa (Pew, 2019). Furthermore, other studies suggest religious war have increased relative to non-religious civil war in which the former is noted to be deadlier and last longer on average. For instance, a study calculated that 44 religious civil wars occurred from 1940 to 2010, accounting for 35 percent of all 135 civil wars (Toft et al., 2011). In terms of region, Asia and Pacific saw twenty (45 percent), the Middle East experienced eight (or 18 percent), Africa underwent eight (a further 18 percent), and Europe sustained eight (Toft et al., 2011). Here, Islam is more likely than other traditions to be involved in religious civil wars in thirty-six cases (82 percent), followed by Christianity in twenty-three cases (52 percent), and Hinduism in seven cases (16 percent). Table 1 shows that Islam dominates religious civil wars that are intra-faith (or fought between members of the same religion) in 11 cases, while it shares the stage with Christianity among interfaith conflicts in 19 cases (Toft et al., 2011). To be sure, religion might not be the sole or primary cause of conflict, given religion is usually intertwined (or become so blurred) with a range of casual factors — such as economic, political, socio-cultural — that define and sustain the conflict.

Table 1: Intra-religious and inter-religious civil wars (1940-2010)

Type of War		No. of Cases
Interfaith		12
	Islam	11
	Christianity	1
Interfaith: State/Opposition		32
	Christianity/Islam	13
	Islam/Christianity	6
	Hinduism/Islam	4
	Hinduism/Christianity	1
	Hinduism/Sikhism	1
	Taoism/Buddhism	2
	Islam/Buddhism	2
	Buddhism/Christianity	1
	Buddhism/Hinduism	1
	Judaism/Islam	1
Total		44

Source: Monica et al. (2011)

Nevertheless, where religious identity is important to the structure of society or function as a primary identity marker, religion then will play a role in the solution as much as it sometimes plays the problem (Haken, 2015). That is, religion can be a mechanism to sow social divisions, undermine the effectiveness of government, systematically disadvantage certain groups, or catalyze extremist agendas (Kaplan, 2014). A case in point is the role of religion on gendered dimensions and characteristics in fragile countries that could explain why ceasing hostilities does not always mean peace for women (Puechguirbal, 2012). In particular intra-faith and interfaith conflict settings, religious beliefs, though often mixed with traditions and cultural norms, can empower conservative patriarchal ideologies or male behaviors (i.e. masculinities) that would further contribute to gender equalities and sexual abuses (OECD, 2017; Harcourt, 2009).

However, at the same time, shared religious values also can be a way to bridge differences, religious affiliation can promote social cohesion, and religious organizations working with community norm setters can address discriminatory gender norms and roles (Kaplan, 2014; OECD, 2017) Therefore, somewhat surprisingly, religion's ability to reduce fragility and facilitate reconciliation in post-conflict environment does not play prominent roles in most international developing programming. Consequently, this can be paramount in terms of what type of microfinance should be used in facilitating the economic, political, and social recovery of the post-conflict environment (Clarke, 2008; Clarke,2010; Casselman et al., 2015; Osman, 2020). That is to say, in regions such as Africa and the Middle East with the highest proportion of extreme poverty and whose conflict-affected settings are characterized religious frictions, microfinance organizations cannot effect substantial change without associating development issues to local religious beliefs, practices, and key actors. Thus, more research attention should be given to better understand faith-based microfinance organizations, since they are usually the first or often the only groups operating in post-conflict environments. Though just as important is whether some of the faith-based operational features should and/or can be replicated by secular development-focused microfinance programs.

Of course, the experiences of organizations working in faith-based microfinance are not similar, homogenous lot. According to some studies, differences among faith-based microfinance organizations can be found in the form of religious principles on moneylending, resource dependency, and perspectives on gender norms and roles (Clarke, 2008; Clarke, 2010; Kustin, 2015). For brevity, this paper will explore key differences as well as why collaboration is needed between Christian faith-based and Islamic microfinance organizations. In regard to religious principles on moneylending, Islamic microfinance generally promotes and works towards its religious belief that loans should be zero-interest. In part, this is because interest rates are "the birth of money from money" that would further disempower the very poor and contribute to greater inequality between people of the same faith (Saad et al., 2013). Meanwhile, Christian-based microfinance generally promotes and works towards lower interest rates as much as possible (for instance, ideally below 10 percent). That is, moneylending is a moral matter in which "high" interest rates would violate the do-unto-others principle, and that money's natural end is to exchange goods and services, where using money to make money should have its limits (Mayyasi, 2017). In fact, it has noted that Christian faith-based microfinance institutions —CRS, CARE, Hope International, and World Vision — operating in Muslim regions have confronted some difficulty in the take up of their microfinance loans because they are inconsistent with Islamic law or Shari'ah (Osman, 2020; Demirguc-Kunt et al., 2014). These include not only restrictions such as interest rates, but also Shari'ah-compliant microfinance lending that promotes profit-and-loss sharing such as *musharakah* and *mudharabah* (Desai, 2007; Gunter, 2009; Saad et al., 2013; Osman, 2020); *musharakah* and *mudharabah* are utilized instead of interest rates, and of which roughly similar to venture capital financing and "shared service" agreement in the West. Although Christian-based microfinance organizations have cross-religious mechanisms that promote non-discriminatory lending, they have yet to develop zero interest loans in their product portfolio, initially use sound administrative fee instead of interest rates, or explore profit-and-loss sharing through agreements or contracts (Saad et al., 2013; Osman, 2020).

By many accounts, Islamic microfinance institutions have particular advantages or legitimacy when operating in majority Muslim areas – introducing financial products that generally comply with Islamic law (Benthall, 2008; Kustin, 2015; Kachkar et al., 2016b). For instance, Islamic microfinance organizations have helped USAID to transition its microfinance programs to adapt Shari'ah compliant loans in Iraq, as well as working with religious leaders to issue fatwas asserting USAID-supported microfinance institutions were religiously acceptable (USAID, 2013). However, on the other hand, Islamic microfinance still plays a limited role in post religious conflict environment or formally aligned with United Nations' SDGs (El-Zoghbi, 2013; Alathary, 2013; Kustin, 2015; Khan, 2019). For example, in context of the ISIS conflict that had stagnated the progress of Iraq's financial system, a 2014 survey reveals only 11 percent of Iraq's adult population has an account at a formal institution, and an overwhelming majority borrowed informally (70 percent) compared to only 4 percent who borrowed formally (Chehade, 2016). By some accounts, religious Muslim clients in post-religious-environment have been given a narrow set of options, ranging from expensive to inconvenient products and services, or both (El-Zoghbi, 2013). In part, because the lack of resource and capability, some Islamic microfinance organizations' Shari'ah-compliant products often mimic and/or are more costly than some conventional microfinance loans. Thus, in some locations, Muslim borrowers did not see a distinguish difference between Islamic and conventional microfinance when it comes to the quality of the products (Efendic and Karamustafic, 2017). This finding may help to explain why, on the one hand, Muslim borrowers in post-conflict environments are likely to prefer taking up loans from Islamic microfinance organizations because of their trust and confidence with their co-religionist compatriots. On the other hand, these borrowers are concerned with the quality of the products and want to get value for their money; and, thus, a number of borrowers have not taken up neither Islamic or conventional microfinance loans in conflict-affected areas (Efendic and Karamustafic, 2017).

In comparison to Islamic microfinance organizations, a greater number of Christian-based microfinance organizations are fully integrated with the international development community. They are signatories to the Red Cross/Red Crescent code of conduct for NGOs, which bans both proselytism and discrimination that favors co-religionists (Benthall, 2008; Clarke, 2008; Clarke, 2010; Clarke, 2018). Although on the ground there have been perceived anti-Christian biases, these Christian-based organizations have recognized that some of this anti-bias has been of 'our own making' because the Christian community over the years has tied itself to colonialism and, thus, some are skeptical of "our intentions and our modes of operation" (Backeus, 2009). Thus, a growing number of Christian-based organizations working on microfinance have explicitly decided to be part of the global cross-cultural realization and development dialogues. In part, such integration has allowed Christian-based organizations to access and benefit from funding sources provided by international development institutions. Therefore, they have made the call to other faith-based organizations to search and embrace structural models such as "NGO/A-church" whose use of faith can be active but non-discriminatory (Backeus, 2009; Clarke, 2018). That is, the conventional faith-based model, often referred to as bounded-orientation, sees outsiders as non-members and whose organizational management is exclusive (See Table 2). By implication, this can significantly limit the impact that faith can have on human development, including not being able to effectively facilitate bridging and linking social capital for their clients. By contrast, through a centered-oriented approach where shared goals defined membership, faith-based microfinance organizations can recruit talented professionals of different religions, leverage financing from the established donors and investors, and create various types of social capital for themselves and their clients. Additionally, faith-based microfinance organizations with a centered-orientation are more likely to engage and be effective in interfaith collaboration. To be certain, there is a potential and significant risk of deepening religious polarization. This can be the case when faith-based microfinance organizations do not have effective boards of directors to assess the external and internal issues that could arise, as well as not having consistent management training and learning to align with centered-orientation objectives.

Table 2: Exploring the continuum of faith-based development models

	Bounded-Orientation (Those Outside Are Not Members)	Centered-Orientation (Shared Goals Defined Membership)
Organizational Religious Allegiance	Christianity or Islam whose religious beliefs are more nationalistic	Faith whose religious beliefs are more secondary to humanitarian principles
Local Collective Identity	Para-church or Para-mosque whose use of faith is persuasive or exclusive in operations	NGO/A-church whose use of faith can be active but non-discriminatory in operations
Funding/Financial Sourcing	Christian Community or Islamic Community	World actors whose identity includes one that is global

Source: Adopted from Backeus (2009) and Clarke (2018)

Currently, many international Islamic microfinance organizations do not yet have the capability to enlarge the source of funding from international development community (Clarke, 2018; Clarke, 2010; Kustin, 2015; Khan, 2019). In part, such shortcoming does not allow the Islamic microfinance movement to address the noted gap between actual usage and preference of Shari'ah-compliant microfinance products. This gap is more pronounced in fragile and post-conflict areas in North African and Middle Eastern countries, where Islamic microfinance is relatively nascent that has contributed to their higher product costs (Demirguc-Kunt et al., 2014). Additionally, Islamic microfinance organizations lack the ability to recruit skill personnel from non-Muslim faith, which is likely needed to scale wide and work in areas where conflicts are marked by interfaith and/or intra-faith divisions (Kustin, 2015; Kachkar et al., 2016b; Khan, 2019). In general, the above limitations can be traced to the collective identity of many Islamic microfinance organizations — the "para-mosque" that uses faith as persuasive in bringing new converts or exclusive in hiring only believers within their operations (Backeus, 2009; Clarke, 2018). Thus, their funding is often within their religious community, although there are a few exceptions such as Islamic Relief and Muslim Aid of whom are headquartered in the UK. Notwithstanding, there are thoughts of how powerful Islamic microfinance organizations can be if they pivot to a centered orientation approach and directly embed themselves in the larger confessional networks and international development community (Benthall, 2008; Kustin, 2015; Khan, 2019).

If Islamic microfinance organizations choose to pivot, this can be done by having an international arm that centered on "faith" activities. That is, their work can authentically aim at the poor as well as to partner with other faiths through shared concerns related to humanitarian principles and human development. In areas that are affected by interfaith conflicts between Islam and Christianity, Islamic microfinance institutions could develop an add-on identity whose "worship" within (or equal to) the structure of the "NGO/A-church." Such identity could fulfill the potential for Islamic microfinance institutions to collaborate and learn from Christian-based microfinance organizations, specifically in enlarging financing from the international aid system and integrating into global institutions working on financial inclusion; and diversifying personnel to excel in interfaith and intra-faith post-conflict environments. In turn, Islamic microfinance institutions would have more financing to develop and scale new Islamic products and services. Moreover, such organizations could also have more clients, including non-Muslims, who would be attracted to products that meet both financial and ethical needs. In fact, such interfaith collaboration could produce products and services that appeal to borrowers that embrace egalitarian values such as profit-and-loss partnership and shared service agreements instead of interest rates, regardless of their faith or no faith. Overall, in post-conflict environments that are marked by intra- and inter-religious disputes, Islamic microfinance institutions can benefit by embracing organizational models that are capable of performing effectively and efficiently, while at the same time can collaborate with Christian-based microfinance organizations (Benthall, 2008; Kustin, 2015; Khan, 2019).

Lastly, in regards to gender norms and roles, Christian-based microfinance organizations tend to approach via an empowerment perspective. That is, through microfinance products and services, women can have access to financial means in order to gain equal access to education, healthcare, and technology. Unequal gender relations are generally considered to the advantage of men, and that without transformative changes will prevent women from decision making or bargaining power. However, in fragile countries, some faith-based microfinance organizations have taken a more "passive" strategy. This especially the case in settings where gender norms are in flux and that there are key local resistors that are against women empowerment; or local political realities that do not support women as active agents in peace building and state-building (OECD, 2017). For Islamic microfinance organizations, they also recognize that Muslim women remain the least empowered part of society and that microfinance is a development project which has improved women's situation in society. However, they also strategically avoid the discourse of gender equality as a fundamental human right or "women only" approach. Instead, Islamic microfinance organizations will often replace gender equality with family empowerment or the economic uplift of families, since conservative patriarchy often dominates or resurfaces after crises (Kustin, 2015). Under the family empowerment related to microfinance, issues of exploitation by male members can be identified and addressed, although any systemic attention to Islamic roles for male (i.e. masculine behaviors) is refrained from (Kustin, 2015). Here, an argument can be made that interfaith collaboration between Christian-based and Islamic microfinance organizations can have mutual beneficial. For the former, they can learn and address issues of gender equality through family empowerment issues without being seen as disrupting local mores or as an interloper with an unwelcome agenda (Kustin, 2015). For the latter, they can learn and address factors that create gender inequality that are based more on traditions, societal standards, and absence of resources, rather than ones related to religion.

3. Exploring Faith-Based Microfinance Institutions and Their Process Mitigation in Post-Religious Conflict Settings

As mentioned earlier, one of the key debates in post-conflict environment is whether there is wisdom of putting secondary goals (i.e. social capital, gender equality, reconciliation and conflict resolution) above economic development goals (i.e. reconstruction efforts of communities, rebuilding basic market enterprises, and reconstructing a functioning economy). However, the dominant view among international NGOs is that microfinance works best for poverty reduction, not conflict resolution (Gunter, 2009). According to this dominant perspective, the construction of lending groups in the name of reconciliation will perhaps suffer in the form of lower repayment rates or less successful businesses (Meissner, 2005). Therefore, other grant programs for training without repayment might be better venues for encouraging people to working together. Furthermore, some microfinance practitioners caution that activities surrounding business, of which can create peace are often about forcing tolerance and may not actually form relationships (Meissner, 2005). In regard to gender equality, while women are at a higher risk of exploitation and abuse and that conservative patriarchy often resurfaces after crises, the link between gender (in)equality and fragility is often deeply complex and not likely resolvable in the short-term. Although women can be seen as actors that can help prevent and mitigate adverse effects, such targeting in microfinance programs must include dedicated gender experts that have specific experience on conflict and fragility (Harcourt, 2009; OECD, 2017). For faith-based microfinance organizations, a key strategy to problem-solve these debates is to identify direct mitigation, indirect mitigation, and process mitigation of post-conflict microfinance (Bernal-Garcia, 2008). In so doing, one can see how social contact in microfinance lending, specifically through the process of mitigation, could facilitate forms of social capital, gender (in)equality, and reconciliation.

First, indirect mitigation takes place when a microfinance organization provides loans to individuals or groups, promoting economic activity. These micro and small-scale businesses then facilitate entrepreneurship, trade, and production that may bring together various groups in business relationships of which could reduce continuing conflict. Direct mitigation takes place when a microfinance organization provides loans to individuals or groups that directly contributes to resolving tensions among groups (Bernal-Garcia, 2008). For example, a field case has been documented in which microfinance loans were employed to build fences around landowners' property in Cameroon. This in turn minimized trespassing by cattle herders that was a primary source of conflict among ethnic groups in the region (Heen, 2004). Last but not least is process mitigation that results from microfinance practices that rehabilitate individual empowerment and generation of coexistence among different groups (See Table 3). That is, microfinance loans provide individuals with positive feedback that they are microfinance clients (not victims) and micro-entrepreneurs (and not aid-dependent), so as to resume the practice of normal economic activity. Equally important is that microfinance through joint repayment groups can facilitate interpersonal relations with members of the "ex-out-group," creating some form of bridging social capital.

Table 3: Typology of mitigation in post-conflict microfinance

	Direct Mitigation	Indirect Mitigation	Process Mitigation
Underlying Idea	Takes place through loan credit in which a funding project directly contributes to resolving tensions among groups	Takes place through loan credit in which economic activity limits the propensity for conflict	Contact between hostile groups during loan credit helps reduce mutual prejudice
Underlying Theory	Conflict escalation can be interrupted	Conflict escalation is more likely in poor societies	Contact through loan credit can reduce conflict escalation independently of the credit's outcome
Illustrative Example	Loan to farmers to build fence for protecting fields	A focus on lifting Cameroon's Tidjiani clients out of poverty	Create client diversity across Muslim factions

Source: Bernal-Garcia (2008)

Especially through process of mitigation, social contact in routine settings could be crucial to overcome the in-group/out-group divisions that had exacerbated during and after conflicts (Bernal-Garcia, 2008). Lending group mechanisms — such as village banking, rotating savings and credit association, and mixed-group lending — provide incentives for people to work together and, in turn, these social interactions could transcend ethnic, religious, or other differences (Meissner, 2005). Case studies in Tajikistan and Rwanda found that peer group processes were important to inter-ethnic cooperation between members, their neighbors and families (Shaw, 2004; Clark, 2004). By some accounts, process mitigation is the most essential of the three noted types of mitigations in post-conflict microfinance. That is, whether a microfinance organization adheres to a strict economic-system perspective or a social impact system perspective, process mitigation takes place regardless of the guiding principles of the post-conflict microfinance organizations (Bernal-Garcia, 2008). Sometimes, but perhaps more often than not, political institutions can directly affect the microfinance's process of mitigation. For example, in the early years of post-conflict Iraq, the Government of Iraq and the U.S.-led coalition emphasized that microfinance institutions loan directly to unemployed young men. This is because unemployed men would be unable to contribute to the care of their families. The implication is that in Arab culture, such men, who feel ashamed in the eyes of the community, are ideal recruits for the insurgency (Gunter, 2009).

It seems that both strict economic-system microfinance and social-impact targeting microfinance would need to have a certain overall balance between goals of economic development and social reconciliation. Because conflict-affected societies are characterized by the breakdown of weak economic and financial institutions along with widespread lack of trust and social capital, microfinance organizations would need to necessitate both peace conditionality with group reintegration and long-term institutional and economic development (Doyle, 1998). Thus, if the post-conflict environment does not provide economic tools and economic development as well as mechanisms to heal wounds and promote common traits among member of previously divided groups, then relapse of conflict and fighting may likely occur (Bernal-Garcia, 2008). In the context that many post-conflict societies usually cannot provide the "essential" external permanent institutions, microfinance by default becomes the key potential coping mechanism to reduce human cost of conflict and to facilitate recovery. The extent that the above is true, at least for particular regions such as the Middle East and Africa, microfinance organizations must give attention to their mitigation process. In so doing, they can restore social capital in order to further ensure repayment via community-building with well-intention actors (Nagarajan and McNulty, 2004); and further increase trust to construct member-owned types of local financial institutions in building basic blocks of civil society (Hudon and Seibel, 2007).

Given that faith-based microfinance organizations are often the first or only non-government groups operating in post-conflict environments, it is important to focus on the vision that these organizations have of their own role in post-conflict settings. From one end of the spectrum, faith-based microfinance organizations with a "bounded-orientation" approach would generally utilize structures intimately attached to the church and its image. This means that identity is marked through institutional membership that enshrines theological allegiance as its primary defining characteristics (Backeus, 2009). Thus, these microfinance organizations would mostly employ and reserve positions of leadership to co-religionists — defined as either a member or not, a worker or not (Backeus, 2009). Though it could be implied that "bounded-orientation" may be limited in creating bonding social capital for their organizations and their clients. At the other end of the spectrum, faith-based microfinance organizations with a "centered-oriented" approach would not have sharp boundaries that separate things inside from those outside it. This means that identity is marked through the call to work with anyone who possesses a desire to strive for the betterment of the marginalized and neglected populations, irrespective of the religious vision or spiritual worldview the person embraces (Backeus, 2009). Therefore, microfinance organizations that are "centered-oriented" would be able to recruit different religious workers that are defined by what they are trying to accomplish and what they are trying to do. That could then be the basis in facilitating some degree of bridging social capital for their organizations and their clients.

Thus, the above assessment of the underlying vision of microfinance organizations would have significant impacts on their process mitigation. These would include the selection of the borrower group that the microfinance organizations would target, as well as the explicit attempt to maximize the form of social capital that can be derived from particular type of lending. In operating in fragile and extreme poverty settings characterized by religious conflicts, whether a microfinance organization is "bounded-oriented" or "centered-oriented" should be examined in terms of its potential implications. Here, some speculations can be drawn from previous studies. For instance, in such locational settings, a microfinance organization with a "bounded-oriented" approach might only target a co-religionist population or a sub-group of the co-religionist population. Additionally, the organization might not explicitly or formally adhere to non-discriminatory policy in selecting beneficiaries and allocating resources not based on needs. In turn, this might exacerbate current tensions and fault lines, or not fostering a culture of transparency, acceptability, and trust. Whereas microfinance organization with a "centered-oriented" approach might explicitly or formally pursue policy decisions that ensure the treatment towards different groups of borrowers are fair and transparent. Specifically, its process mitigation is not to promote specific religion, instead all involved within the organization would see "work as worship" that would entail its engagement and dialogue would integrate different perspectives (Backeus, 2009). Moreover, the benefits of "centered-oriented" approach include its structure that allows for a larger pool of potential workers with development knowledge and skills; access to a wider confessional and development networks; and an internal climate that promotes mutual respect and humble listening (Backeus, 2009).

Presently, while there are no empirical case studies, there have been anecdotal accounts of international faith-based organizations based on the ideas of "centered-orientation" that have operated in post-tsunami reconstruction in Indonesia. Here, a Christian faith-based organization working in microfinance had appeared to explicitly promote a "centered-oriented" style model. This organization via its process mitigation recruited from the two major faiths in Indonesia, Muslims and Christians. Both Muslim and Christian co-workers were invited to be open and expressive of their faith position while, at the same time, were expected to purposely learn and listen to those presenting other beliefs and positions in the community (Backeus, 2009). In addition, there were formal events in which Muslim colleagues would take the lead in breaking and fasting together during Ramadan, explaining why they fast and why they see work as worship. Other formal events were led by Christian colleagues on a discursive training program on "Gender Issues and Development" in which various views and perspectives were explored. Here, gender perspectives that interlaced and even fraught with religious points of view were discussed. While no specific accounts were provided on how such process mitigation affected the organization's direct and indirect mitigations, the above field case noted that such process mitigation would not have been possible within a conventional Christian faith-based organization or a secular one. However, the organization did note that such process enables small group-style fellowships under its umbrellas – the emergence of small groups "without extraction of persons from their communities and they are engendered in the midst of robust social involvement that campaigns toward justice" (Backeus, 2009). The formation of these small fellowship groups for social justice would seem to imply that some extent of bridging social capital was created and was at work.

Aside from Christian-based organizations, there were also a couple of Islamic organizations — Islamic Relief and Muslim Aid — that also provided microfinance in post-tsunami reconstruction in Indonesia. Here, these two Islamic organizations were based in the UK and were more implicit about their "centered-oriented" approach in which both were fully integrated with the international development community. They both hired non-Muslims and whose staff members were remarkably varied in their ethnic backgrounds. Both organizations acknowledged that among their Muslim personnel, there were cultural differences that were unlikely to dissolve just because they were both Muslims (Benthall, 2008). Meanwhile, Muslim and Christian co-workers were able to communicate and discuss issues, including dishonest and potential corruption issues among their contractors. In one situation, Islamic Relief was able to assist CRS, who offered to help a local community in rebuilding a mosque; but the community leaders objected because for a mosque to be funded by Christians was haram (forbidden). The solution was for Islamic Relief to build the mosque and later be reimbursed by CRS. By contrast, it appeared that Muslim Aid had a different management style, mostly providing autonomy for its country director to use his personal link between the international aid system and the communities in Indonesia. Interestingly, the Muslim Aid's country director noted that while there are local advantages to be derived from the Islamic label, it can actually be a disadvantage in relations with international aid organizations because staff had to 'work doubly hard' (Benthall, 2008). Although no details were given on how such process mitigation affected the two organizations' direct and indirect mitigations on borrowers, it would appear that Islamic Aid and Muslim Aid were able to form and utilize bridging social capital to problem-solve issues that had arisen (Benthall, 2008). From the above, principles of humanitarian action appeared to be needed — neutrality, impartiality, and universality. In general, both the noted Christian and Islamic organizations working in microfinance saw the need to make tentative moves toward interfaith/intra-faith collaboration, and whose process of mitigation was generally effective in post-crisis environments (Benthall, 2008).

4. Conclusion: A Need for Interfaith Microfinance Laboratory in Religious Conflict Environments

In conflict-affected settings, there is an important need for balance in providing strict financial microfinance loans and producing social impact through lending mechanisms, although it is difficult to isolate and rigorously measure such dual roles. Nonetheless, because post-conflict societies and environments are so ridden with complexity, this paper attempts to show that faith-based microfinance organizations are more suited for this endeavor. Additionally, in the last two decades, religious hostilities appear to be increasing in frequency and ferocity and are contributing to the growing fragile states and post-crisis situations — especially in the Middle East, Africa, and Asia (Pew, 2019). Here, Muslims and Christians have the highest proportion of religious groups that are affected by interfaith and intra-faith conflicts. The above realities imply that Christian-based and Islamic microfinance organizations cannot affect substantial change without associating development issues to local religious practices and inviting community norm setters have a buy-into their programs. Not surprisingly, over the last 15 years, faith-based organizations and the international aid system have staked out a strong rationale based on common objectives (Clarke, 2008; Clarke, 2010; Clarke, 2018). In turn, a number of Christian-based microfinance organizations, shifting their structures to a "center-orientation" that is based on shared humanitarian goals which define membership, have had strong linkages to international aid institutions. Meanwhile, many Islamic microfinance organizations are currently behind. In part, this is because their structures are generally based on "bounded-orientation" or bounded social capital in which a specific religion is promoted, constraining an organizational structure to recruit talented co-workers of different religions or no religion.

But while Christian-based microfinance organizations are often the preferred choice by the international development community, they could better serve their Muslim clients via a collaboration with an Islamic organization. In so doing, they could make their microfinance products are more egalitarian and more consistent with Islamic laws, which would be more effective in religious conflict environments. Also noteworthy is that Islamic microfinance organizations could resolve the noted gap between actual usage and preference of Shari'ah-compliant/egalitarian microfinance products. They could do this via a collaboration with a Christian-based microfinance organization. By learning how to create an international arm whose "worship" within (or equal to) the structure of the NGO, Islamic microfinance organizations could further develop their cross-religious mechanisms for greater impact (Benthall, 2008; Kustin, 2015; Khan, 2019). Given the above possibilities, this paper argues for the development of an interfaith microfinance laboratory, a platform that explores organizational structures and various types of social capital needed not only in religious conflict settings but also in rising conservative nationalism or religious nationalism in post-pandemic world. As inferred in this paper, perhaps the initial support for such an interfaith microfinance laboratory is that there already evidence that interfaith microfinance could be the ideal model in effectively managing the pressures of both strict economic-system microfinance and social-impact targeting microfinance. Although there is a potential and significant risk of deepening religious polarization, the interfaith microfinance laboratory can be tasked to develop strategies with higher audits along with diverse and talented board members. Dynamic boards of directors could harness the positive externalities, while minimizing the negative externalities, of interfaith microfinance partnership. Importantly, the noted laboratory could help and require faith-based microfinance organizations to have their own "national action plan activities" that adhere to UN's standards on peace and conflict resolutions (OECD, 2017).

To be feasible and viable, the call for an interfaith microfinance laboratory could initially be developed by existing research programs that have a focus on religion and development, such as those at the University of Birmingham in the United Kingdom and Georgetown University and Santa Clara University in the United States. These research programs could focus on addressing current limitations in interfaith microfinance collaboration. These include the role of religion on gendered dimensions in interfaith and intra-faith conflict settings, which currently is not well-understood to work with community norm setters in eliminating discriminatory gender norms and roles (OECD, 2017; Harcourt, 2009; Puechguirbal, 2012). These research programs could also facilitate the need for the microfinance industry to diversify their data initiatives, such as the Mixmarket, ensuring that faith-based microfinance organizations are more represented. Moreover, the noted research programs could initially train future leaders that have the mindsets and skillsets in developing innovative initiatives to foster inter-religious collaboration (Clarke, 2008; Clarke, 2010; Clarke, 2018). Fortunately, there is an already growing educational infrastructure in the U.S. that supports interfaith education for services, promoting college graduates to develop interreligious competency and skills toward real-world application (Freedman, 2016). In other countries like Indonesia and Malaysia, there have been considerable education reform efforts to expand interreligious studies. In the case of Indonesia, there are projects by the Indonesian foreign ministry to promote interfaith diplomacy that engages the Middle East peace process, which promotes the idea of Indonesia as a peace broker (Hoesterey, 2014).

All of the above points to the tentative work on interfaith collaboration. That is, faith-based organizations working in microfinance are usually the first on the ground in fragile countries that are often characterized by interfaith or intra-faith conflicts. However, they will need institutional human resources to (re)build bridges through microfinance mechanisms to reconstruct a base for economic recovery and to overcome the pre-existing sources of conflict. Importantly, such rebuilding is even more urgent as Covid-19 pandemic has likely made fragile countries and post-conflict settings even more challenging. Therefore, the paper's call to explore how interfaith microfinance collaboration can address extreme poverty and the facilitation of social capital along with gender equality is well worth paying attention to.

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