18 Post-crisis Microfinance[40]

From Bangladesh to Central America, and from Haiti to Rwanda, it [microfinance] has been an especially powerful tool in helping the poor get back on their feet after natural and man-made disasters.... Our team's findings suggest that tens of thousands of survivors are being held back in their efforts to recover because they lack investment capital, even as little as US$50. ~ Counts et al. (2005)

Armed conflicts, economic crises, coups, earthquakes, floods and other natural and man-made disasters are unfortunately too common to ignore their existence and their impact on development, including on microfinance. A crisis poses serious challenges for microfinance programmes.

At the same time, microfinance programmes can have positive social and economic impacts on post-crisis settings by integrating different groups of clients (for example, residents and returnees), building trust and social capital (through group lending), facilitating reconstruction, and expanding economic opportunities.

This module introduces basic concepts and considerations for MFIs that are interested in serving crisis-affected communities. It addresses the following six topics:

1. When is microfinance an appropriate intervention?
2. Characteristics of a post-crisis environment
3. Characteristics of post-crisis clients
4. Designing a post-crisis product portfolio
5. Delivering a post-crisis product portfolio
6. Preparing clients and institutions for crisis

18.1 When Is Microfinance an Appropriate Intervention?

If an MFI is present in a community when crisis strikes, then the question it must answer is not whether to intervene, but rather which services it can and should offer during and immediately after the crisis (see Section 18.4). For an MFI that seeks to enter a crisis-affected area for the first time, or to re-enter an area from which it previously had to exit, the question of when to enter that area is critical.

Unfortunately, there is no easy answer to this question. There are many types of crisis, some of which last for decades and others that stabilize more rapidly. The timing for entering a crisis-affected area and introducing or reintroducing financial services depends less on the amount of time that has passed since the outbreak or resolution of the crisis and more on the nature of destruction caused. Somewhat surprisingly, microfinance can be an appropriate intervention as soon as three basic conditions are met (Larson et al., 2004):

[40] This chapter is adapted from Magill, J. 2003. *The first 30 days: A practical guide to managing natural disasters for microfinance institutions* (Bethesda: Development Alternatives, Inc.); Miamidian, E.; Arnold, M.; Burritt, K.; Jacquand, M. 2005. *Surviving disasters and supporting recovery: A guidebook for microfinance institutions*, Disaster Risk Management Working Paper Series No. 10 (Washington, DC, World Bank), and Doyle, K. 1998. *Microfinance in the Wake of Conflict: Challenges and Opportunities* (New York, SEEP Network).

1. **Political stability.** The operating environment must offer a reasonable degree of security and safety to an MFI and its clients. Put negatively, there must be an absence of chaos. This does not mean that there must be a total absence of conflict, or of the possibility that conflict might flare up again. MFIs such as LEAP in Liberia and URWEGO in Rwanda have demonstrated that microfinance can be done successfully in one area of a country while conflict rages in others (see Box 18.1).
2. **Economic activity.** According to Doyle (1998), "If there is a single, determining factor across organizations and contexts that signals the possibility of initiating microfinance activities, it is the reappearance of open-air markets." The resumption of basic economic activity seems to indicate that clients' lives are returning to normal, and that potential demand for income-generating financial services exists. MFIs that survive a crisis may be able to offer clients risk-managing financial services (such as access to savings and remittances) before economic activity resumes, but those that wish to launch new microcredit activities will want to wait until they see opportunities for productive investment.
3. **Population stability.** To operate successfully in a post-crisis environment, an MFI must be reasonably sure that the people it wants to serve will remain in its area of operations long enough to repay their loans.

Of course, just because microfinance can be an appropriate intervention does not mean that it will be an appropriate intervention. MFIs that choose to operate in a post-crisis environment must be willing and able to experiment and be sufficiently flexible to manage changing circumstances. It will help if they have a long-term interest in serving the area and are prepared to face higher costs and risks in the short-term. It will also help if there is some degree of macroeconomic stability and a functioning commercial banking system. If none of this is present, an organization should seriously consider whether the timing is right for it to launch microfinance activities. Emergency relief and humanitarian assistance might be more appropriate interventions at that point in time.

In general, if an organization was not active in an area prior to a crisis, launching a full-scale microfinance programme immediately after the crisis is not recommended. Start-ups are inherently risky, and the pressures and challenges of a post-crisis environment elevate that risk substantially. Information will be difficult to gather, and local resources will already be strained by relief efforts. It may be useful, however, to initiate some pre-credit activities such as group formation, internal savings mobilization or training that could prepare the way for microfinance activities during the recovery phase (Seller, 2008).

Box 18.1 What Is Sufficient Stability?

World Relief Rwanda started Urwego, a microfinance institution, in 1996, nearly two years after the genocide of 1994. Even then, many observers questioned whether Rwanda was sufficiently stable for microfinance, given the existence of insurrections in certain parts of the country. Urwego's response was simply to stay away from those areas, focusing on the more stable areas of the country.

Source: Larson et al., 2004.

Table 18.1 Essential and favourable conditions for post-crisis microfinance

	External	Internal
Essential conditions	• Political stability • Sufficient economic activity and demand for financial services • Relative population stability	• Capacity and will to experiment • Flexibility in product and programme design
Favourable conditions	• Macroeconomic stability • Functioning commercial bank • Support institutions developing • Social capital, trust (among population as well as in institutions)	• Availability of long-term funding • Interest in long-term engagement in the area • Willingness to face higher costs and risks

Source: Authors' summary of USAID, 2004.

18.2 Characteristics of a Post-crisis Environment

According to Nourse et al. (2006), crises are typically classified into one of three categories: 1) rapid-onset disasters, which are caused by events such as earthquakes and floods; 2) disasters, such as drought or desertification; and 3) conflict, either high-intensity or low-intensity. Although these three types of crisis impact on communities in different ways, there are certain characteristics that all post-crisis environments tend to have in common.

Persisting insecurity. When a crisis ends, fear, uncertainty, violence and lawlessness do not immediately disappear. Especially after a prolonged armed conflict, demobilized soldiers who possess weapons but not jobs may survive by stealing from others, including MFI staff and clients. A lack of respect for the rule of law will affect the way people deal with disagreements long after the shooting has ended. Unresolved problems may persist in new forms, and conflict can return after a short period of peace. Even in the case of natural disasters, the lack of capacity for general law enforcement can create an environment that is ripe for looting and crime.

Human resource limitations. Crises deplete a community's human resource base in several ways: people may be killed or injured, they may flee, or if the crisis lasts a long time, they may spend years without access to education or training. As a result, MFIs may find it considerably more difficult and more expensive to recruit and train staff in a post-conflict environment. Clients are also likely to be less educated and may require more training and support than in other environments. Both staff and clients may require counselling to overcome the trauma they experienced during the crisis.

Population mobility. A large percentage of the population may be forced to leave their home or even their country as a result of a crisis. The long-lasting conflict in Mozambique between 1964 and 1992, for example, caused 10 per cent of the total population to flee the country and 23 per cent to displace internally (Wilson, 2001). In Bosnia, during five years of conflict, 51 per cent of the population was displaced (Doyle, 1998), and the 2010 earthquake in Haiti left approximately 15 per cent of the population homeless (Associated Press, 2010).

Once a crisis ends, these populations will often try to return home, with varying consequences for MFIs that may try to serve them.

Temporary increase in self-employment. Crises destroy both formal and informal employment opportunities, but the informal sector re-establishes itself much faster than the formal sector. As a result, many people turn to self-employment and to the informal sector in an effort to make a living, some for the first time and some only until the formal sector is rebuilt.

Destruction of physical capital. Damage to infrastructure such as roads, markets, electricity and telecommunication systems affects economic and financial activity as well as the delivery of basic services, such as health, education and sanitation. The loss of shelter and other productive and non-productive assets increases the poverty and vulnerability of households in post-crisis environments.

Destruction of social capital. Crises damage and often destroy social capital – the networks, norms, values and understandings that facilitate cooperation within or among groups. The damage is worst in prolonged conflicts, when certain segments of society cause harm to others, which creates resentment and often leads to a lack of trust in local institutions, in people and in the future. This is especially problematic for community-based financial institutions, and for supplier credit and other forms of value chain finance. Natural disasters can disperse populations and cause emotional distress, but their effect on social capital is usually temporary. Even though social infrastructure may be destroyed, the ties that bind the community together are usually not, and as soon as people can find a way to come together, those ties help them cope with the crisis. Social capital is often strengthened by the experience of having survived the crisis together.

Instability. Persisting insecurity, population mobility, and the destruction of physical and social capital all contribute to ongoing economic instability. At both at the macroeconomic and microeconomic levels, this unstable and unpredictable environment makes it difficult and risky to make plans for the future.

Influx of donor funds and grants. In the early stages of crisis response, relief and humanitarian assistance has an important role to play. Nevertheless, the introduction of grants and subsidies can create dependence and distort the market for sustainable microfinance if they last too long, or if the rationale for and short-term nature of the grants is not clearly communicated. MFIs operating in a post-crisis environment will need to invest time in advocacy to encourage the appropriate use of grants (see Chapter 13), to raise donor agency awareness of how microfinance can help transition communities from relief to development, and to communicate messages that avoid confusion between loans and grants.

Table 18.2 summarizes the impact of the three main types of crisis on various levels of an economy. The exact impact of a crisis will depend on its duration, scale and intensity, as well as on the strength of the affected community's social and physical infrastructure prior to the crisis, and its degree of crisis preparedness. In general, conflicts have greater impact than disasters, especially long-lasting conflicts, because they destroy the relationships and community structures that are needed to cope with the consequences of a crisis.

Table 18.2 Levels of impact by type of crisis

<table>
<tr><th></th><th></th><th>Micro-level (businesses, households)</th><th>Meso-level (institutions)</th><th>Macro-level</th></tr>
<tr><td rowspan="3">CRISIS TYPE</td><td>Slow-onset disasters</td><td>• Loss of assets
• Loss of skills due to migration
• Declines in productivity</td><td>• Weak marketing networks due to migration
• Damage to or loss of natural resources</td><td rowspan="2">Localized reduction in capacity to enforce laws and provide basic services</td></tr>
<tr><td>Rapid-onset disasters</td><td>• Loss of assets
• Disrupted markets
• Trauma</td><td>Infrastructure damaged or devastated</td></tr>
<tr><td>Conflict</td><td>• Loss of assets
• Loss of skills due to migration or ineffective education
• Instability or loss of networks and increased operating costs limiting market scope
• Trauma</td><td>• Infrastructure damaged or devastated
• Licit networks disrupted; illicit networks strengthened</td><td>Reduced national capacity to enforce laws and provide basic services</td></tr>
</table>

Source: Nourse et al., 2006.

18.3 Characteristics of Post-crisis Clients

People behave differently in response to a crisis. Some remain in their home community throughout the entire crisis (inhabitants). Others may be forced to flee, either to other areas within their home country (internally displaced persons) or to other countries (refugees). When the crisis ends, some might return to their original community or to a new area within their home country (returnees). While all of these can be found both after disasters and after armed conflicts, another group (demobilized soldiers) is specific to armed conflicts.

Experience with microfinance in post-crisis settings has led practitioners to conclude that it is more effective and less risky to offer microfinance services to a mixed clientele rather than to target any particular subgroup. An inclusive approach helps to avoid tensions between subgroups and is more supportive of reintegration, stabilization and peace. It also facilitates greater scale and efficiency. Nevertheless, it is useful to think about the different characteristics, demands and risk factors of each population group to be able to design and market products that meet their needs.

Inhabitants, the individuals who stay in their home community during a crisis, are probably the closest to clients in normal settings. They are settled, might still possess some productive assets and/or land, and are usually eager to restart their economic activities and take on economic opportunities as soon as the crisis ends. They are therefore among the prime candidates for microfinance in post-crisis settings. The products they typically demand include reconstruction and emergency loans as well as savings.

Returnees are former refugees or internally displaced persons who have returned to their country of origin. Having returned to settle permanently and rebuild their homes and economic activities, they are also highly favourable microfinance candidates. Together with inhabitants, they provide the engine for development of the local economy. Returnees often receive cash or grants as incentives to return, and they may bring along some money earned or have access to remittances. Besides start-up and working capital loans, savings and money transfer services might therefore be in great demand.

Refugees are people who fled from a crisis and live outside their country of origin. They can be among the poorest and most vulnerable, although in some contexts those who flee are the ones who can afford to flee. They have usually left behind their productive assets, have lost their social capital, might have legal, cultural and skill-related (for example, language) difficulties in engaging in economic activities abroad, often lack access to markets, are usually dependent on humanitarian assistance, and by definition are not permanently settled. They are more challenging microfinance clients, but if they reside in a camp for a longer period, microfinance might be a feasible intervention. As the example of IRC (International Rescue Committee) in Côte d'Ivoire illustrates, small, short-term loans as well as savings-first approaches can work well for this market segment (see Box 18.2). Refugees might also have a demand for money transfer services to send and receive remittances.

Box 18.2 Microfinance for Refugees – Experience from IRC in Côte d'Ivoire

Recognizing the benefits of savings and credit for the establishment of economic activities and the reduction of vulnerability among Liberian refugees in Côte d'Ivoire, IRC started the SEAD (Small Economic Activities Development) programme in March 1998. The methodology of the SEAD programme was based on the formation of "clubs" among refugees who trusted each other, were interested in improving their economic status by engaging in small economic activities, and planned to live in the same area in the future. IRC encouraged the clubs to save money with the prospect of receiving matching loans after eight weeks of successful club formation and saving. The savings were deposited in the closest commercial banks or in the club's cash boxes. The maximum loan size was three times the amount deposited, and the loan term ranged from 4 to 12 weeks.

By December 1998, IRC had facilitated the formation of 146 clubs and had given matching loans with a value of US$89,708 to 1,822 families. One major benefit of the SEAD methodology was the built-in sustainability of the clubs beyond the resettlement period. First, clubs were formed among refugees who intended to settle in the same area once they returned to their home country. This enabled club members to continue their savings and credit activities after returning home. Second, to facilitate the return of refugees even if they had not fully reimbursed their loans, IRC accepted the club's deposits as cash guarantees until the outstanding loans were repaid. Upon full loan repayment, IRC handed back the cash guarantees. This mechanism provided returnees with a safe place to store their savings during the resettlement phase, and ensured access to their resources once installed. Finally, by economically empowering refugees, IRC facilitated the economic recovery and reintegration of former refugees in their home country.

Source: Alles, 1999.

Internally displaced persons (IDPs) are individuals who are displaced within their country of origin, and resemble refugees in many ways. They are usually not permanently settled, are eager to return to their home communities, and have left their productive assets behind. Their advantage over refugees is that they remain in their home country and thus may be familiar with the language, culture and legal framework, and might have the opportunity to earn income during displacement. IDPs, similar to refugees, can be successfully integrated in microfinance programmes, especially if they remain in their displacement area for a longer period, or if the microfinance programme can follow them to their areas of origin.

Demobilized soldiers are former military forces that have been disarmed and demobilized. They are usually in greater need of non-financial assistance including education and training, mentoring and counselling as well as psychological support. In some countries, ex-combatants are still teenagers, having been recruited as junior soldiers during childhood. In general, microcredit programmes for demobilized soldiers have experienced low recovery rates. Demobilized soldiers tend to regard loans as gifts – compensation for the burdens experienced during the conflict. Also, they typically lack the skills and entrepreneurial spirit to become self-employed and invest loans effectively. They are often supported best by services other than microfinance (see, for example, Box 18.3), although savings services can also be useful, especially if ex-combatants have pensions or entitlement payments they want to protect.

Box 18.3 Ex-Combatant Reintegration in Congo/Brazzaville

In 2000, the International Organization for Migration (IOM) and the United Nations Development Programme (UNDP) launched a pilot effort to reintegrate ex-combatants into self-employment and simultaneously collect small arms in Congo/Brazzaville. The programme intended to use microcredit to launch enterprises for the ex-combatants. Priority access to loans would be given to former soldiers who turned in their weapons, and to group projects in order to lower administrative and supervisory overhead costs. Through a two-month pilot phase, this concept was carefully tested by the technical team. The majority of ex-combatants had little experience in business, and the business plans they developed lacked viability. The technical team recommended significant revisions to the programme before proceeding.

The team therefore modified the strategy to focus on training. The training would be followed with one of two options. Those with the experience or capability to run a business could still be supported through microloans to open a new venture. The team recommended that microcredit be provided through a strategic partnership with a local microcredit institution rather than by creating a new microcredit window. For the majority of ex-combatants, however, self-employment remained highly risky. The project therefore aimed to create jobs within existing businesses or as subcontractors of services to local governments, through a range of incentives to stimulate the supply of jobs.

By becoming more realistic about clients' abilities, the team removed much of the pressure on microcredit institutions to give loans when they could not guarantee client or institutional discipline. Within the first ten weeks of launching the revised approach, the project reached over 4,000 ex-combatants with reintegration support. Initial funding ran out, and based on strong early results, the programme was able to raise significant follow-on funding.

Source: Parker and Pearce, 2001.

18.4 Designing a Post-crisis Product Portfolio

The demand for microfinance in a post-crisis environment evolves with the passage of time. Immediately after a crisis, customers are trying to cope with the most urgent consequences of the crisis, and their financial service requirements are focused primarily on meeting basic needs. Once they stabilize their situation and markets begin to function, their focus shifts to rebuilding what was lost during the conflict or disaster. Some clients take longer to make the transition than others. Refugees, demobilized soldiers and those who have lost all their assets to an earthquake or flood need more time to get their bearings than inhabitants who survived the crisis with minimal losses, for example. This section explores the nature of the product portfolio that tends to be useful in the period immediately following a crisis, referred to as the emergency response phase, versus the subsequent period of reconstruction and development, referred to as the recovery phase.

Emergency Response Phase

MFIs that were operating in an affected area before crisis hit can be in the best position to support that area immediately after the crisis. They are already on the ground, they have infrastructure in place, they know the environment, and they have many established relationships upon which to build. However, institutions that are present during a crisis can also be victims of the crisis. Branch infrastructure, communication channels, vehicles and other assets can be damaged or destroyed; staff can be injured or killed. The first thing an on-site MFI must do after a crisis is assess its situation and determine the extent to which it can operate in the post-crisis environment.

Donors, non-governmental organizations (NGOs) and other stakeholders that were not operating in the affected area before the crisis will not be able to build infrastructure fast enough to provide microfinance services during the emergency response stage. They can, however, support MFIs that are already established in the area and assist them in recovering from the crisis. This kind of partnership is something that can be negotiated in advance as part of a contingency plan (refer to Section 18.6), and will increase the speed with which action can be taken after a crisis.

MFIs that survive a crisis might usefully provide the following products and services:

- **Access to savings.** One of the main reasons why clients save is to set aside funds for use in the event of an emergency (see Chapter 4). If they have savings with an MFI, they are likely to want to access at least some of that savings to pay for the additional expenses that a crisis can bring. An MFI might allow access not only to voluntary savings, but also, on an exceptional basis, to compulsory savings. Institutions should be aware, however, that compulsory savings withdrawal patterns tend to be more radical than those of voluntary savings, as clients take advantage of the rare opportunity to access the funds in their compulsory savings account. If an MFI is perceived to be a safe place to store funds, it may see an increase in voluntary savings deposits immediately after a crisis, particularly if there has been large-scale destruction of housing. Usually, increased expenses, persisting insecurity and a general lack of trust in institutions limit savings deposits during this phase.

- **Safe deposit boxes.** Due to the destruction of physical infrastructure and the increase in insecurity, households may need a safe place to store their valuables. If they have cash, a savings account can be useful, but more often, especially in the case of refugees, access to a safe deposit box would be more helpful.
- **Money transfer services.** After both conflicts and natural disasters, a money transfer service (see Chapter 11) can enable households to receive cash from relatives and friends to help them recover from the crisis. If an MFI has the liquidity, providing these services to the general population and not just to pre-crisis clients could attract new clients to the institution that might stay and use other services once their lives have stabilized.
- **Emergency loans.** Especially after natural disasters, emergency loans (see Chapter 8) can be a valuable product for clients who have not lost their productive capacity, but face a temporary increase in expenses due to the crisis, which they cannot finance from their savings. For example, they may need to repair their roof, or restock supplies damaged by water. The purpose of the loan is usually consumption, but it can help borrowers keep their business going and avoid the sale of productive assets. Emergency loans are made available as quickly as possible to clients in good standing for small amounts and with a short repayment period, often one month or less. Many MFIs have reported a 100 per cent repayment rate on emergency loans disbursed under these terms (Miamidian et al., 2005).
- **Non-financial services.** For those households hit hardest, non-financial services may be more appropriate than any of the financial services mentioned above. Depending on the availability of aid from government, NGO or corporate sources, MFIs may need or want to provide services that help clients meet their basic needs (for example, food, water, blankets, temporary shelter) or volunteer their branch and client network as a distribution channel for other organizations to make these services available. In post-conflict situations, MFIs might also provide referrals to trauma counsellors and begin rebuilding social capital through group formation and training activities. Organizations that want to offer microfinance services during the recovery phase can begin developing relationships and credibility in crisis-affected communities by providing non-financial services during this phase.
- **Emergency relief grants.** MFIs may offer one-time emergency relief grants to their most vulnerable or most severely affected clients to mitigate the immediate impact of the crisis. It is important that the short-term and extraordinary nature of these grants be well communicated, that the conditions for eligibility be transparent, and that the grants be designed to support a long-term and productive relationship between recipients and the MFI. As explained in Chapter 13, grants are usually best delivered through a partner organization or, in the case of multi-service NGOs, through a separate operational window.

The immediate period after a crisis is usually not a good time to make new microenterprise loans. Insecurity, instability and the influence of grants make it a riskier time to lend, and borrowers are more likely to consume at least part of their loan instead of investing it in their business. Typically, an MFI's own human and financial resources will be stretched by emergency demands, leaving little capacity for non-emergency loans. If a crisis affects only some areas or members of a community, an MFI might be able to make new microenterprise loans to others, but it must also ensure that it allocates sufficient resources to safeguard its crisis-affected portfolio.

Clients who are in the process of repaying an existing loan may face temporary or permanent disruptions in income as a result of the crisis that affect their ability to repay. MFIs must assess whether the design of their existing loan products can meet customer and MFI needs in the post-crisis environment, or whether product policies and procedures need adjustment. There are five types of adjustment that MFIs often make during the emergency response phase of a crisis. The first two might be made for all clients, but the remaining three should be made only if a specific client's situation warrants it.

- **Grace period.** By granting a grace period on payments of principal, interest or compulsory savings, MFIs leave resources in clients' hands to help cope with the immediate impact of the crisis. It is a gesture of goodwill that avoids a clash with clients who are suffering and may not have the capacity to repay.
- **Late payments and penalties.** MFIs may want to allow clients to make late payments for reasons directly related to the crisis. For example, there may be days when a branch is closed, a loan officer is unable to make scheduled visits to clients, or clients are unable to reach their branch because of police barricades. MFIs that have late payment fees or penalties may want to relax these requirements during the period immediately following the crisis.
- **Rescheduling.** If good clients are unable to make loan payments according to their pre-crisis repayment schedule, MFIs can provide a new repayment schedule that gives them time to recover from the effects of the crisis and become re-established in their businesses. The new schedule typically extends the loan term, decreasing the size of each instalment payment or postponing the payment of interest and/or loan principal for a specified period, after which clients are expected to make regular payments for the remaining contract period. Loan rescheduling in the wake of natural disasters has become a common practice among MFIs. Institutions recognize that if they push too much for on-time repayment, they may force otherwise outstanding clients to default or to sell productive assets, which harms clients' livelihood and their relationship with the MFI. Overall, rapid and well-targeted (see Box 18.4) restructuring appears to save an MFI from significant write-offs, at a short-term cost of delayed interest and principal payments.
- **Refinancing.** If good clients' productive assets are destroyed in the crisis, time alone will not be enough to stabilize their situation. They will need a cash injection to re-establish

Box 18.4 Rescheduling Loans after a Rapid-onset Disaster

Rather than the previously endorsed "blanket approach" to rescheduling all loans in hard-hit areas, current "sound practice" advocates rescheduling on an individual or borrowing-group basis. Although the customized approach requires tracking down and meeting with all affected clients as well as greater administrative and monitoring complexity, most MFIs agree that the customized approach makes better use of the MFI's limited supply of funds after a disaster hits, and ensures that MFI staff are in the field meeting with clients throughout the emergency period. Individually rescheduling thousands of loans will require a lot of work on the part of the MFI's accountants, branch managers, and staff. To make the system moderately manageable, a specific policy should be established to give loan officers parameters for rescheduling, as well as some standardized choices among payment schedules.

Source: Chua and Miehlbradt, 1999.

Box 18.5 To Write Off or Not to Write Off?

When Hurricane Mitch hit Nicaragua, ProMujer did not condone anyone's debt, even when portfolio at risk reached 40 per cent. By reminding women of their commitment to pay their loans, they were pushed to start working quickly and effectively. This was a success, most loans were repaid, and this is why ProMujer survived.

Source: Handicap International, 2006.

their businesses. After the 1998 floods in Bangladesh, for example, the Bangladesh Rehabilitation Assistance Committee (BRAC) permitted clients to take up to 50 per cent of their current loan as a new loan and to extend repayment by six months. Refinanced loans need to be structured so that the business being financed can generate enough cash to service both loans, while still allowing borrowers to care for their family. This requires greater focus by the loan officer on clients' cash flow, collateral, and character.

- **Loan cancellations and write-offs.** Loan cancellations (in which clients are no longer held liable for repayment) are not generally recommended, because they negatively affect the MFI's income and capital as well as the credit culture that an institution has worked to develop. Most clients will be able to repay their loans if given the chance to do so through rescheduling or refinancing (see Box 18.5). Institutions may consider changing their normal policy for write-offs, however, extending the amount of time that can pass before writing off loans in the event of a crisis. For clients that are deceased, MFIs often have no choice but to write off, unless a loan is covered by an appropriate insurance product.

The objective of any revision in credit policy immediately after a crisis should be to enable clients to maintain a productive relationship with the MFI. Institutions need to show their clients that they understand their predicament and will do their best to help. At the same time, they must send a clear message that they expect clients to honour their obligations to the MFI as soon as they are able to do so.

Recovery Phase

As markets start to reopen, business activities re-emerge, and infrastructure begins to be reconstructed, a different microfinance product portfolio will be demanded. As communities recover from the crisis, they will eventually need access to the full range of products and services laid out in Chapter 1, but the products that are most likely to be demanded are summarized in Figure 18.1: microenterprise loans, housing loans, leasing, non-financial services and savings.

In the recovery phase, demand for credit to finance reconstruction and working capital needs is sure to be high. Some clients will want to take advantage of opportunities to rebuild or perhaps expand their businesses (see Box 18.6). Others will want to start a business for the first time. Still others will seek a loan to repair or rebuild a home. Given the variety of credit needs, organizations that entered a crisis-affected area during the emergency response phase in order to begin lending during the recovery phase might want to start by offering one flexible, multipurpose loan product with a wide range of sizes and maturities to meet as many of these different needs as possible. It will simplify service delivery for an institution that is just getting started.

Figure 18.1 Post-crisis product mix

Emergency response phase
- Access to savings
- Safe deposit boxes
- Money transfers
- Emergency loans
- Non-financial services (counselling, referrals, conduit for in-kind grants)
- Grants

Recovery phase
- Microenterprise loans
- Housing loans
- Leasing
- Non-financial services (business development, literacy training, value chain intervention)
- Savings

Source: Authors.

MFIs that existed before the crisis may already offer several different products that can meet these needs in a more specialized fashion, and they can adapt these products as necessary to accommodate the post-crisis environment. For example, an MFI that survives a major earthquake might add a construction assistance component to its existing **housing loan** product (see Chapter 7) to help clients invest in more durable housing. If many clients were killed or had to flee during the crisis, an MFI using a group lending methodology might allow a **smaller group size** than normal so that it can continue its relationship with the well-performing clients who remain in each group rather than destabilize groups with the injection of a large number of new members (see Box 18.7).

Microleases and asset replacement loans can assist clients who lost assets during a crisis and wish to replace them (see Chapter 10). Both types of product generally bear terms of at least one year, and are for larger amounts than the typical working capital loan. Because of this, only MFIs with significant liquidity are able to provide them in a post-crisis situation.

In-kind loans might be appropriate if inflation or theft is a serious problem, or if there is widespread dependence on cash grants. In Angola, Jesuit Refugee Service found that its in-kind loans, such as chicken and goats for reproduction, achieved far better recovery rates than its cash credits.

Box 18.6 Disasters Also Create Opportunities

Disasters can create opportunities for both microentrepreneurs and MFIs. Many microenterprises are engaged in small-scale construction activities and manufacturing that lends itself to reconstruction efforts. A disaster creates a sudden increase in the demand for their goods and services. Surviving microenterprises engaged in food service or petty commerce may find an increase in demand for their products as traditional distribution channels and food preparation facilities are destroyed. Small commercial vendors are well positioned to change their product line to meet the demand for goods such as water, plastic and other items needed to cope with the disaster. The earthquakes in El Salvador demonstrated the resilience and adaptability of the microenterprise sector, as microentrepreneurs were back in business the day following the earthquakes selling entirely new lines of products suited to client needs, including water, gloves, masks and quick-food items. As in the case of individual clients, disasters create opportunities for financial institutions that are in a position to capitalize on them. Opportunities may come from the ability to attract new clients, generate new business, or offer new products.

Source: Magill, 2003.

Box 18.7 Group Lending in a Post-conflict Environment

Since community structures and social capital are often destroyed or badly damaged during a conflict, large group lending methodologies that require 20 or 30 people to guarantee each others' loans are more difficult to implement successfully than other methodologies. Even if groups are willing to come together for the purpose of borrowing, extensive counselling and trust building are often required before they become cohesive and stable enough to record full and on-time repayment. MFIs that are accustomed to using group lending methodologies must decide whether they want to invest in helping members of a community build social capital or to switch methodologies. In the Balkans, for example, many microfinance programmes decided to offer individual loans, requiring guarantors or collateral, rather than group loans (see Chapter 6 for a discussion of different lending methodologies). This can be a particularly attractive option for MFIs that offered an individual loan product prior to the crisis.

MFIs that choose to stick with a group lending methodology often reduce the size of the groups that they work with or modify the village bank methodology, as World Relief did in Cambodia, so that members form solidarity groups of five or six that serve as the first level of guarantee. Some programmes choose to target rural communities where trust levels are almost always higher, although rural operations often face higher transaction costs due to lower population density and weaker infrastructure.

Source: Adapted from Doyle, 1998.

Value-chain finance, which supports and relies upon relationships between producers, buyers and suppliers, is limited after a crisis because key actors are inevitably missing from the chain, trust may have deteriorated between those who remain, and market opportunities may be poor. MFIs are sometimes able to speed the reconstruction of value chains by seeking out actors whose capacity is weak, and finding ways to meet their financial service needs. As in the case of Fonkoze and Concern International in Haiti (see Box 18.8), this effort can bring the MFI new clients in addition to benefitting existing clients who are already part of the chain.

Box 18.8 Value-Chain Interventions Aid Recovery in Haiti

After violent political conflicts on the Central Plateau between 2003 and 2004, the Haitian MFI Fonkoze and its NGO partner, Concern International, went quickly to the field to determine the current standing of clients, employees, physical assets and portfolio quality, and whether the situation should be viewed as a humanitarian crisis. Concern quickly determined that it should not – that the situation was rather a simple disruption of the economic value chain that could be resolved by using Fonkoze's Business Development programme to make special loans to key suppliers of Fonkoze solidarity group clients. A combined Concern/Fonkoze team then followed up with market research to identify the key suppliers of Fonkoze clients, and also to learn what those suppliers would need to get their businesses up and running again. The response this research led to turned out to be much more effective than treating the situation as a humanitarian crisis would have been. Food aid or other handouts would only have deepened problems for the small businesswomen Fonkoze exists to help. Instead, working with their suppliers helped them and their communities as well.

Source: Werlin and Hastings, 2006.

Non-financial services continue to be important during the recovery phase, but the nature of the services demanded differs from the emergency response phase. During the recovery phase, many people turn to self-employment for the first time in their lives due to a lack of other employment opportunities. To succeed, they need support in identifying viable self-employment activities and developing their business skills. In communities that are emerging from years of war, literacy training, basic health education, agricultural extension services and conflict resolution skills might all be needed. MFIs can opt to provide some of these services themselves through an integrated model such as Credit with Education (see Box 12.3 in the chapter on non-financial services) or by creating linkages to other service providers and support organizations that make these services easily accessible to their clients.

During the recovery phase, clients should transition away from **grants** and towards credit and other financial services that enable them to function self-sufficiently in the post-crisis environment. Grants may still be available at this stage, but the potential for them to hinder rather than promote recovery intensifies. MFIs that feel the need to integrate grants into their product portfolio should take great care to follow the guidelines for effective grant design provided in Chapter 13. Grants might be linked, for example, to a leasing or asset replacement loan product as described in Box 13.4. They could also form part of a start-up or graduation model that assists clients in launching their own income-generating activities (refer to Boxes 13.1 and 13.2).

In contrast to credit, there is no consensus on the degree of demand for **savings** services during the recovery phase. Some practitioners have found that people in conflict-affected areas are actually more inclined to save than to invest (Doyle, 1998). Others find that ongoing insecurity, lack of trust in institutions, and high transaction costs restrict the demand for savings long after a crisis ends. Certainly, clients who invest in their businesses and begin to generate income will need ways to manage their cash flows and risks, and accessible voluntary savings products could assist them with this challenge. In countries where lump-sum cash grants are distributed by aid agencies or large-scale cash-for-work programmes are initiated, savings accounts can serve the same purpose for a very different clientele (see Box 18.9).

Box 18.9 Can MFI Clients Save Even after a Major Disaster?

Yes! The poor can save soon after a disaster in both financial and non-financial forms. Whether or not savings are deposited with an MFI depends on clients' trust of the MFI, transaction costs and accessibility. MFIs operating in tsunami-affected areas of Sri Lanka reported larger total savings balances in March 2005 compared with March 2004. They also recorded larger total savings balances in December 2005 compared with December 2004. An assessment in Batticoloa district showed that around 35 per cent of cash grants and cash-for-work (CFW) payments received by beneficiaries were saved in MFIs (Aheeyar, 2006). In Aceh, Indonesia, Mercy Corps implemented a CFW programme in tsunami-affected areas that benefited nearly 18,000 participants and disbursed over US$4.5 million in direct payments. The programme began on 7 January 2005 and was gradually phased out by 31 July 2005 in favour of other programmes aimed at building livelihoods and more sustainable sources of income. Exit surveys of CFW participants showed that 29 per cent of households had deposited cash savings.

Source: Nagarajan, 2006.

18.5 Delivering a Post-crisis Product Portfolio

Although the range of products that an MFI can incorporate into its portfolio during both the emergency response and recovery phases is significant, this does not mean that it will be able to deliver any of those products effectively. As described in Section 18.2, the post-crisis environment complicates microfinance service delivery in many ways. Six of the major challenges that MFIs must overcome to succeed in a crisis-affected market are briefly explored below: communication, liquidity management, security, cost and risk management, motivating on-time repayment, and neutrality.

Communication

MFIs face three main communication challenges in a post-crisis environment. The first is public relations. MFIs often do not have much experience in this area, but their ability to function after a crisis depends, in large part, on the attitudes and impressions that clients and other members of the public form about them. If an institution is viewed as safe, sound and compassionate, people will trust it and do their best to maintain their relationship with it, even if the repayment of outstanding loans is difficult. When an institution is viewed as unstable, or interested only in recuperating its funds, the public is more likely to abandon it.

The second communication challenge is to manage expectations. An MFI will have to convey to clients that the crisis situation necessitates a different approach than usual (for example, relief grants or loan rescheduling), and that this approach is temporary. It needs to give clients information about the options available to them, and the policies and procedures the institution intends to follow – for instance, that loans will not be forgiven, that grace periods and loan rescheduling will depend on individual circumstances, that clients needing help should come to the branch office to discuss their situation, and so on.

The third main communication challenge is internal. An MFI's employees need to know how to assess the situation on the ground, and channel information about the impact of the crisis on staff and clients to decision-makers as quickly as possible. They also need to know how to respond to client requests for information. They must know what the new or revised policies are so they can give clients consistent, accurate information. They should also be encouraged to provide feedback on customer complaints and suggestions, and on their ideas for accommodating client needs better. As discussed in Section 18.6, having a crisis response plan in place, and training staff on the contents of that plan, can help to facilitate better internal communication during a crisis.

Liquidity Management [41]

Crises put pressure on an MFI's liquidity from a variety of angles: current borrowers may not be able to make loan repayments on time or at all; depositors will want access to their savings; additional reserves will need to be set aside if outstanding loans are rescheduled; both current and potential customers will seek emergency and reconstruction loans; and the MFI's own expenses will increase due to infrastructure or other types of damage. To survive the aftermath of a crisis, MFIs must ensure that they have access to sufficient funds to meet these needs.

[41] This section is adapted from Chu and Miehlbradt (1999b).

Box 18.10 Fast and Fair Distribution of Emergency Funds in Poland

Fundusz Mikro, a Polish MFI, established a disaster loan fund after the 1997 floods, financed by a donor grant. To ensure rapid loan disbursement, it assigned partial responsibility for damage assessment and total responsibility for emergency loan disbursements to the clients. Fundusz Mikro provided a standardized loan amount to groups of affected individuals, and the group members divided the loan amount on the basis of the losses suffered by each of them. This was a simple way of ensuring that only affected clients received emergency loans, as group members were unlikely to provide part of the capital to someone who did not need it. Through random checks Fundusz Mikro disqualified any group that submitted an application with a non-eligible person to ensure compliance with the emergency lending policy. Applications for emergency loans were considered from the smallest to the largest amount requested, thus discouraging people to ask for more than they needed.

Source: Miamidian et al., 2005.

As soon as an MFI can get a handle on its post-crisis situation, it should make daily projections of recoveries, income, expenses and loan disbursements for the current month and at least two months thereafter. It can then take steps to access the additional liquidity it will need. MFIs can expect to find liquidity from their required cash reserves and funds committed for new loan outlays. In addition, they can seek out loans (perhaps from commercial banks with which the MFI has a long-term relationship) and grants (usually through international fund-raising efforts and emergency requests to donors). Donor disaster response monies usually require several weeks to access, which will be too late for clients' immediate emergency needs, but they can help during the recovery phase.

Some MFIs working in chronic disaster areas have developed internal disaster funds that can be quickly accessed to solve (or at least reduce) a short-term liquidity crisis. After violent political conflicts and flooding in 2004, for example, the Haitian MFI Fonkoze began taking a monthly provision, apart from its loan loss provision, to prepare better for losses from unexpected events, including disaster, conflict and theft (Werlin and Hastings, 2006).

Disaster loan funds can also be capitalized by an initial donor grant and serve one MFI (as in the case described in Box 18.10) or many MFIs. CARE established a disaster loan fund, for example, that serves 22 smaller MFIs in Bangladesh (Brown and Nagarajan, 2000). The primary purpose of these funds is typically to meet affected households' immediate demand for cash rather than to cover any unexpected losses experienced by MFIs.

Security

MFIs' options for dealing with the insecurity present in post-crisis environments depend to some degree on the availability of commercial bank infrastructure to hold and move money. If commercial banks are operating and located nearby, MFIs can store money there rather than leave it in their own offices. They can also make special arrangements for clients to make payments and deposits into the MFI's account at a commercial bank. In Uganda, some MFIs avoid cash disbursements by giving clients individual cheques that can be cashed at their convenience. In South Africa, MFIs issue loans on automatic teller machine (ATM) cards, and clients use them to withdraw their funds and make repayments at commercial bank ATMs. Although this shifts security risk to clients, clients usually have more knowledge and flexibility about the safest time to access their cash, and may prefer this option to others that leave risk in the hands of the MFI but raise the cost of the service.

Regardless of whether they have access to commercial bank infrastructure, MFIs can take many other precautions in post-conflict areas to increase security and safety. For example:

- Avoid falling into patterns of behaviour. Vary the days of the week and locations for repayment meetings so most people are unaware when employees will be travelling with large sums.
- Reduce the frequency of disbursements and repayment, and/or open satellite offices to reduce the amount of travel necessary.
- Travel in pairs or in groups. In several Cambodian programmes, four to six staff members will go to the field, scatter, and meet up again before returning to the central office. This "safety in numbers" practice can also be used when clients are responsible for carrying payments.
- Equip frontline staff with radios for communication purposes.
- Maintain a low profile. Do not advertise the presence of branch offices, and do not have employees wear uniforms.
- Hire security companies that supply armed guards and/or armoured vehicles when large amounts of cash need to be transferred between central locations and outlying offices. Inform only staff who need to know that a transfer will take place.
- Purchase transit insurance policies and/or fidelity guarantee policies if available.
- Break repayments down into smaller, less tempting amounts by dividing large groups into smaller subgroups. These subgroups can then designate a member to collect and deposit members' payments, possibly outside group meetings.
- On the day of repayment, groups can randomly choose the member who carries payments to the MFI or partner bank. This helps prevent "inside jobs", in which a member would collude in advance with an outsider to stage a theft.
- Use traditional informal structures for transferring money to branches. In Afghanistan, for example, the Save the Children office in Kabul gives money to a Kabul-based family member, who in turn instructs a family living near the branch office to give the amount (less a fee) to the local Save branch.

Managing Risks and Costs

Many of the strategies described in this chapter to decrease the risk of operating in a post-crisis environment also increase costs. For instance, reducing the size of borrower groups might facilitate better repayment, but it also lowers loan officer productivity. Armed guards can increase staff and client safety, but their salaries must be paid. The provision of subsidized or interest-free emergency loans can lower political and reputation risk, but it also decreases revenue.

Although subsidized funds may be available to help an MFI operate in a post-crisis environment, such funding is limited and is by no means guaranteed. Ultimately, MFIs have to charge interest rates that cover their costs. If a post-conflict environment generates higher expenses, then interest rates there will need to be higher than in normal environments. Since natural disasters usually increase costs on a temporary basis, and generate a need for urgent access to funds when the crisis occurs, MFIs can charge an interest rate before the crisis that allows reserves to be set aside for use in the event of a crisis, as discussed previously.

MFIs that want to operate in a post-crisis environment need to prioritize risks and focus on those that represent the greatest potential loss. They must ask themselves whether each risk-reducing initiative is worth its associated costs, or they will quickly price themselves out of the market (or eat away at their capital). Higher risk tolerance combined with the flexibility to act quickly when adjustments are needed to keep risk within a tolerable range seems important to success.

Motivating On-time Repayment

Although it will be difficult for many borrowers to repay their loans on time after a crisis, it will be possible for others. Providing incentives that motivate clients to maintain their relationship with the institution and to make the extra effort to pay on time even if others cannot will help MFIs to control both costs and risks. For example, MFIs can reward on-time repayment during the emergency response phase with access to additional products or better terms during the recovery phase. Banco Solidario in Ecuador improved its on-time payment statistics during a period of extreme financial crisis by making new loans available only to people who had kept to their established repayment schedules (Magill, 2003). Refugees who repay their loans from the American Refugee Committee in West Africa are issued certificates with their names, loan information, and credit ratings that they can use as proof of credit history at lending organizations established by the American Refugee Committee when they return home (Mitten, 2007).

The early and regular presence of MFI staff in the field is also an important motivator. The visits signal to clients that the institution has not forgotten about them, and the compassion shown by employees when they visit can have a powerful psychological impact. A few encouraging words can help clients muster the confidence to face the future, and if staff are able to take the time to understand a client's situation and suggest a way forward, their visits can quickly produce results.

Neutrality

MFIs need to enter the post-crisis environment as a neutral third party. If they or their donor/investor base are seen to support one side of the conflict, one political party, one ethnic or religious group, or other similar division, they are likely to encounter resistance, and perhaps even attack from local entities. For instance, after US forces toppled Saddam Hussein, CHF (a US-based NGO formerly known as the Cooperative Housing Foundation) quickly discovered the need to disconnect itself from the US military in Iraq. The staff spent much of its first few months in Baghdad meeting with top Iraqi opinion-makers – Muslim clerics, business leaders, bankers, and appointed government officials – to disavow all connections with the so-called coalition forces. CHF believes that if it had not done this, it would never have succeeded in providing microcredit for the poor of that country (Woodworth, 2006).

18.6 Preparing Clients and Institutions for Crisis [42]

The options available to clients and institutions in a post-crisis environment will be influenced by the degree to which they were prepared for the crisis. Even in the case of rapid-onset disasters such as floods and earthquakes, minimal preparation on the part of clients and institutions can significantly increase their ability to survive and recover from a crisis. This section explores some of the actions MFIs can take to help prepare their clients and themselves to manage the risks and costs of a conflict or disaster.

Preparing Clients

There are six main ways that MFIs can assist clients to prepare for a crisis:

1. **Offer a voluntary savings product and encourage clients to use it.** Especially in regions that are prone to natural disasters, appropriate savings services can help households set asides reserves to deal with a crisis when it occurs. Unlike fixed assets, savings can be quickly liquidated if necessary to move to another location or to cope with the immediate aftermath of a crisis.
2. **Set up an emergency fund** within the institution or, if the MFI uses a large group delivery methodology, within borrower groups to provide clients with a financial safety net. If the MFI manages the fund, it needs to be kept liquid (and not used as loan capital) so that the funds are immediately accessible when a crisis strikes. If community or borrower groups manage the fund, they may choose to use the accumulated capital as a short-term emergency loan fund that covers individual emergencies as well as community-level crises.
3. If the potential for disaster is well known or predictable (for example, in regions that flood on an annual basis, or if tensions leading up to an election suggest the possibility of post-election violence), MFIs can **adjust the timing or terms of their loans** to limit risk exposure during the potential crisis period. In Bangladesh, for instance, some MFIs have adjusted their loan repayment schedules to reduce required repayments during the flood season. They also time loans for livestock so that animals can be raised to maturity and sold before the rainy season.
4. **Provide a commitment savings or housing loan product** and encourage clients to use these products to build more durable housing, to move to safer areas, or to invest in risk-reducing measures such as water-harvesting devices in drought-prone areas. One of the greatest risks to households in chronic disaster areas is poorly constructed housing, which is prone to extensive damage in winds or floods. In addition, clients continuing to reside in high-risk locations (such as within known flood zones or where mudslides are possible) are at greater risk than those living in safer areas.
5. **Explore the possibility of offering clients insurance products** that respond to aggregate (community-wide) crises. Providing this kind of insurance is a risky undertaking for MFIs, even if payment into the plan is mandatory. Still, some MFIs are experimenting with insurance products for disaster response, in some cases turning to the reinsurance market to spread aggregate risks more broadly. The Self-Employed Women's Association (SEWA) in India has created one deposit-linked insurance scheme, which compensates clients for business losses and deaths caused by fire or flood. The programme has been plagued with

[42] This section is adapted from Chua and Miehlbradt (1999c and 1999d).

Box 18.11 Disaster Planning at Grameen Bank

As part of its disaster response plan, the Grameen Bank raises staff awareness about the incoming flood season by talking about the flood and how to combat it at the beginning of June each year. Employees urge members to save more during the normal months to deal with shortage during and after the flood. They advise the borrowers to immunize their livestock and poultry, as well as store feed for them, and to buy and store vegetables that have long shelf life, such as winter watermelon and squash. Members are also urged to prepare their houses to deal with flood, for example by building a loft where they can take shelter and store valuable items in the face of rapidly rising water.

Source: Dowla, 2007.

difficulties in getting the partner institution – a state insurance company – to make timely payments to clients. Vaigai Vattara Kalanjiyam in India, working with PRADHAN, also links an insurance fund to the state insurance company. In this scheme, clients may request payouts of up to four times the amount of premiums paid, once in a five-year period. Index insurance, discussed in Chapter 20 on rural microfinance, may be another option.

6. Beginning with the most at-risk client groups, MFIs can **create opportunities to discuss preparation and coping strategies with clients** before a crisis occurs. In addition to imparting specific technical information, these meetings mentally prepare clients for unexpected events and help them build a sense of personal and community empowerment to respond to crises. Meetings might include the following topics: household emergency coping strategies; the role of accessible savings; diversification of income-earning activities into disaster-resistant activities; the financing of seed or grain banks; preventive health practices; and sources of disaster relief services (see, for example, Box 18.11). MFIs can provide these non-financial services on their own, or in partnership with other government or non-governmental actors.

Preparing the Institution

Strengthening clients' ability to cope with crisis will benefit an MFI through increased customer retention and more productive use of the MFI's products and services. However, there are many other actions that an MFI can take to improve its own ability to operate in a post-crisis environment. The initiatives described below cannot fully prepare or protect an MFI from a crisis, but they can lessen its shock on the institution and its staff, and hasten the return to normal MFI operations. According to Abramovitz (2001), every dollar spent on disaster preparedness will save seven dollars in recovery efforts.

Identification of potential crises and measurement of potential losses. Once an MFI gathers this information, it can put cost-effective plans in place to mitigate the impact of a crisis. For example, field staff can help MFI management create a "risk map" that identifies which clients (by location, type of activity, or type of shelter) are at extreme, moderate, or minimal risk in the event of a natural disaster. The MFI can then identify what percentage of the current loan portfolio is held by at-risk clients and estimate the potential effect of the disaster on cash flow and financial returns, should the at-risk clients temporarily halt repayments or request emergency loans. On the savings side, the MFI can identify the amount of liquidity required to provide the at-risk population access to voluntary or compulsory savings, assuming that loan repayment inflows in a disaster situation will slow to zero. These figures can help management decide whether to increase liquidity reserves, to provision more for losses, or to change lending policies.

Participatory rapid appraisal tools, such as those developed by *MicroSave* for microfinance institutions, can assist MFIs in understanding their target market's experiences with crisis. Table 18.3 provides sample output from the Time Series of Crisis Tool, which can be used to identify disaster trends, the coping mechanisms typically used by clients, and the implications for MFIs.[43]

Table 18.3 Sample output from Time Series of Crisis Tool for drought

Explanation	Trends	Coping mechanisms	Institutional implications / opportunities
• "From 1970 to 1991, it was too rampant. Even people died, others migrated." • "Cows die or devalue (thinner), and are sold on a take-away price." • "I prefer to get rid of the animals at any price before they die."	• Drought is seasonal (Nov to Apr), every year, and sometimes in August as well. It is considered the major crisis because of the recurrent financial burden it creates in the community. • This group perceived that widespread famine could hit the community in the near future – 5 years. (Although Kayunga looks green in May…)	• Cut on food. "Black coffee, no sugar." "Skip meals." "Since it arouses famine, we ration the little food we have to take us through the day spell." • Some families sell their assets (animals) and/or mortgage land. "Some people sell household property to access cash." • Resort to savings in terms of food that they conserve for dry seasons. • Go to cities, such as Jinja and even Soroti, to buy food. • Borrow from family members and friends. • "When friends are not willing to give money, what do you do? YOU SUFFER." • Participants clearly said that they prefer not to borrow money from MFIs during drought periods, being afraid that they will not be able to pay back."People prefer borrowing from friends than MFIs." "The strict policies of lending are maintained even during hard times." "They can be tough on you, police is involved." • ROSCAs/ASCAs were not mentioned.	• Although there was considerable probing, participants are not willing to borrow from MFIs during crises. • The issue is not lack of supply of MFIs (UMFI and UWFT do have presence in the area) or of a specific loan product in times of emergencies. • Reluctance to borrow from UMFI is related to the "red marks" on their records when the client fails to pay on time. It makes them feel embarrassed. • UMFI might want to consider introducing a "yellow card" to warn clients. "The red mark comes too quickly." Participants suggested a 2-day consideration period before applying red marks for late payment, especially to good clients. "If you could not go … you see, we come from Jinja." • UMFI should let clients know clearly that one red mark is allowed (according to loan officers), and afterwards, the amount for the next loan is lower. "The red mark still applies when the loan period has expired." They said it always affects access to higher loan amounts. • UMFIs repayment is flexible (bi-weekly or monthly) and is fine to them. However, UMFI might also want to consider the different nature of businesses for repayment schemes (farmers vs. market). • UMFI might want to open a branch in Jinja as clients need to travel long distances. • (And/or) UMFI should increase the number of loan officers in the Kayunga branch. There are 3 loan officers for a total of 2,400 clients (equivalent to approx. 300 groups of 5 to 10 clients each).

Source: MicroSave, as presented in Miamidian et al., 2005

[43] For more information on *MicroSave's* market research tools, visit: www.microsave.org.

Backing up client and financial records. Crisis response and post-crisis MFI recovery are often crippled by loss of client records. In disaster-prone areas, records should be regularly updated, duplicated, and stored away from disaster zones. At a minimum, MFI files can be stored in airtight, durable, fire- and water-resistant containers. MFIs with computerized information systems can store a backup of their files and software at an offsite location that is not likely to be affected by the same disaster or conflict that the institution might face.

Geographic and sector diversification. Rarely will a crisis affect all areas of a country simultaneously and with equal severity. Geographic diversification can allow branches unaffected by a crisis to provide bridge funding to affected regions. Similarly, sector diversification helps limit the number of clients that are likely to be affected by a given crisis. MFIs that serve only agricultural clients, for example, are particularly vulnerable to the effects of natural disaster.

Policies and procedures. A crisis response plan, or contingency plan, is essential for a rapid and effective response to crisis (refer to Box 18.12 and the case study at the end of this chapter for examples). The plan can describe:

- the policies and procedures that will take effect in the event of a crisis (for example, will emergency loans be made available, will clients be allowed to withdraw compulsory savings, will the MFI provide or refer any emergency relief activities to affected communities, will clients' outstanding loans be rescheduled);
- what will trigger the implementation of these policies and procedures (for example, government declaration of disaster, loss of homes);
- what criteria will be used to determine to whom the procedure applies;
- who will implement the policies (for example, which decisions can be taken by field officers, branch managers, or the head office);
- what mechanism(s) will be used to communicate with staff and clients,
- how staff will be rewarded for making the extra effort to contact clients and keep the programme intact, even when their own families may be affected by the crisis.

Each policy should include some flexibility in its parameters: different types and sizes of crisis will require different levels of response, and even for a specific event the effect on individual branches will vary. These differences may lead to dissimilar policies by area: for example, severely affected branches may have a longer rescheduling period than those that are only moderately affected. When developing the parameters for response, MFIs should undertake a "what-if" analysis (in other words, risk scenario planning) to ensure that they have sufficient resources to carry out the chosen policy for different levels of disaster, and to identify the effects of these policies on their financial standing.

Backup liquidity. As discussed above, the greatest problem facing an MFI after a sudden disaster is liquidity. Building an internal disaster fund, or arranging backup liquidity from commercial banks or donors in advance of a crisis, will speed an MFI's access to cash immediately after the crisis.

Partnerships. MFIs can identify government programmes and non-governmental organizations that provide emergency services such as food grants, medical supplies and services, clean water, and temporary shelters; pinpoint their areas of operation; and perhaps develop

Box 18.12 Disaster Planning at ACODEP in Nicaragua

ACODEP has developed a comprehensive disaster preparedness plan that includes modifications to the delivery of its products and services during a disaster, as well as the introduction of emergency and recovery products. In addition to a flexible credit policy for disaster emergency and recovery, ACODEP created a disaster loan fund to help the institution prepare better for possible cash flow demands and to control credit and liquidity risks. The MFI stops collecting payments during the emergency period, allows clients to withdraw compulsory savings deposits (which are normally used as collateral), stops lending, and on the basis of a field damage assessment, prepares loan restructuring and refinancing plans. In addition, it offers short-term loans of one or two months with special interest rates for household needs in cases of severe emergencies. ACODEP loans are restructured when clients lose their homes, but not their productive assets. Loans are also restructured for those clients that are severely injured. Loans may be refinanced when productive assets are completely lost.

Source: Pantoja, 2002, as cited in Miamidian et al, 2005.

partnerships that can channel relief to clients in the event of a crisis. MFIs can also develop relationships with institutions that track weather patterns and predict storms or floods, to provide staff and clients with early warning of a possible crisis.

Training. Staff can be trained in crisis response policies and procedures, or at least be given clear written guidelines to follow if crisis strikes. They can learn how to provide pre-disaster information to clients; techniques for working with clients during the crisis without damaging the MFI's "business" reputation; techniques for managing and accounting for relief funds; and ways to coordinate effectively with relief and emergency workers. Since crises frequently destroy communication and transportation links, leaving field staff cut off from the head office, it is important that these staff be capable of making critical crisis-response decisions.

Crisis mitigation team. Larger MFIs may establish a crisis mitigation task force made up of eight to ten mid-level and senior managers from across the institution. During normal times, the task force would be responsible for: 1) developing a comprehensive plan for disaster response; 2) undertaking pre-disaster projections for financial planning; 3) assigning disaster response responsibilities by department; and 4) identifying preventive measures to make the MFI less vulnerable to a sudden disaster. Once disaster strikes, the task force would serve as a forum for the smooth flow of activities and information. Each task force member would be assigned a disaster response task, such as communicating with branch offices to assess damages, liaising with donors and commercial banks, providing post-disaster accounting information, providing emergency services for staff or clients, or identifying and coordinating with emergency service providers.

Taken as a whole, the initiatives described above help to ensure that an MFI is forewarned about impending crises and has the necessary elements – including a plan, trained staff, and sufficient financial resources – to respond quickly and efficiently.

Main Messages

1. Microfinance can be an appropriate intervention immediately after a crisis.
2. MFIs that choose to operate in a post-crisis environment must be willing and able to experiment, and be sufficiently flexible to manage changing circumstances.
3. In post-crisis settings, it is more effective and less risky to offer microfinance services to a mixed clientele rather than to target any particular subgroup.
4. Prepare clients and the institution to manage crises before they occur.

Case Study: SFI Responds to Natural and Man-made Crises in the Philippines

Serviamus Foundation Incorporated (SFI) was established in 1998 in Mindanao, Philippines, as a non-profit NGO, with support from Catholic Relief Services (CRS). Its main product at the start of operations was a group loan based on the Grameen Bank model. As of December 2008, it was reaching 9,439 clients with 76 total staff, a gross loan portfolio of US$826,492 and savings of US$471,223.

In 1999 and 2000, Mindanao was hit by two major crises. In February 1999, the region was severely affected by flooding, caused mainly by the El Niño phenomenon. Approximately 650 families were displaced and more than 300 houses were destroyed. Then, in March 2000, fighting broke out between the Armed Forces of the Philippines and the Moro Islamic Liberation Front in the province of Lanao del Norte. This conflict led hundreds of people to flee from the province.

Both events affected the microfinance operations of SFI, and led the organization to react. On the one hand, SFI adapted its existing services to the changed circumstances and on the other hand, it created new products and services to meet the needs of its clients better in times of crisis.

Immediately after the flooding, SFI staff visited affected families in evacuation centres to assess their situation and provide some counselling. Overall, due to a high influx of private donations, well-functioning solidarity mechanisms, the quick receding of the water and a relatively small number of directly affected clients, SFI's microfinance operations were not seriously harmed by the floods. Therefore the loan policies were not changed and no rescheduling of loans took place. SFI did develop new products to correspond to the special needs of its clients, however. With the help of emergency assistance funds provided by CRS, SFI provided emergency loans and a few grants to especially affected families, mostly for house reconstruction.

The emergency loans had the following characteristics:

- payable within a maximum of three years (reduced in 2000 to one year);
- zero per cent interest rate; 2 per cent service charge;
- loan amount dependent on clients' capacity to pay and the severity of the damage;
- repayment incorporated in the weekly amortization of the regular loan;

- client eligible depending on the personal need for assistance and after submitting a basic questionnaire, including a breakdown on the desired use of funds.

As a rule, emergency loans had to be repaid first. During the repayment of the emergency loans, the repayment of other outstanding loans stopped. Clients therefore benefited from a de facto moratorium on pre-existing loans.

The impact of armed violence in 2000 was worse. At least 230 clients and their families were directly affected by the conflict, houses were burnt, shops destroyed and a few people killed. Adding to the general economic crisis in the area, the conflict led to the collapse of businesses and consequent repayment difficulties among SFI clients. In response, SFI granted its clients a three-week grace period and encouraged them to maintain their membership even if they could not continue repayment at that time. Depending on clients' individual situation, loans were rescheduled and grace periods of up to six months were permitted. SFI monitored client groups closely and allowed them to move to new loan cycles even if one member had failed to repay due to the conflict.

In sum, SFI introduced flexibility into the management of its outstanding loan portfolio to account for the difficult situations of its clients. Although client participation in meetings dropped significantly immediately after the crisis, it had recovered to its former level only two months later. The biggest loss to the organization occurred due to the flight of around 160 client families from the area, out of which only half repaid their outstanding loan. SFI had to write off this amount, but was able to absorb the loss due to its loan loss reserve.

Besides the direct effects of the armed violence on the clients, the elevated security threats also severely affected microfinance operations. In response, SFI set up a 24-hour guard in front of its office, purchased a vehicle to pick up collections at centres, varied the schedule of centre collections, and, whenever possible, deposited collected funds with the bank immediately. It also made a concerted effort to spread the word that SFI is a pro-poor organization and any attack on it would hurt the community.

Clients' feedback on the microfinance programme suggests that they were generally satisfied with SFI's crisis response. They expressed the need for even more flexibility in times of crisis, however, advocating for shorter loan terms, more flexible repayment schedules, and the waiving of penalties on overdue loans.

The long-term strategy of SFI for a better crisis response and mitigation included plans to provide disaster preparedness training for staff and clients, diversify its client base (geographically and by sector), develop insurance products, promote savings as self-insurance, and collaborate more closely with donors to speed up emergency loan disbursement after an event of crisis.

This case study was adapted from Seller (2002) with data provided by the MIX (www.mixmarket.org).

Recommended Reading

- Alidri, P.; van Doorn, J.; El-Zoghbi, M.; Houtart, M.; Larson, D.; Nagarajan, G.; Tsilikounas, C. 2002. *Introduction to microfinance in conflict-affected communities* (Geneva, ILO and UNHCR), at: http://www.ilo.org/public/libdoc/ilo/2002/102B09_320_engl.pdf
- Brown, W.; Nagarajan, G. 2000. *Disaster loan funds for microfinance institutions: A look at emerging experience* (Bethesda, Microenterprise Best Practices), at: http://www.microfinancegateway.org/gm/document-1.9.29690/3784_file_03784.pdf
- Chua, R.; Miehlbradt, A. 1999. *Rapid onset natural disasters technical briefs* (Bethesda, Microenterprise Best Practices), at: http://www.microlinks.org/ev_en.php?ID=7488_201&ID2=DO_TOPIC
- Doyle, K. 1998. *Microfinance in the wake of conflict: Challenges and opportunities* (New York, SEEP Network), at: http://www.microfinancegateway.org/p/site/m//template.rc/1.9.28945
- Foundation for Development Cooperation. 2006. *Training resources on microfinance and disaster management* (Queensland, Banking with the Poor Network), at: http://www.bwtp.org/arcm/mfdm/training.html
- Larson, D.; Pierce, M.; Graber, K.; Doyle, K.; Halty, M. 2004. *Technical briefs on post-conflict microfinance* (Bethesda, Microenterprise Best Practices), at: http://www.microlinks.org/ev_en.php?ID=7465_201&ID2=DO_TOPIC
- Magill, J. 2003. *The first 30 days: A practical guide to managing natural disasters for microfinance institutions* (Bethesda: Development Alternatives, Inc.), at: http://www.microfinancegateway.org/p/site/m//template.rc/1.9.42070
- Miamidian, E.; Arnold, M.; Burritt, K.; Jacquand, M. 2005. *Surviving disasters and supporting recovery: A guidebook for microfinance institutions*, Disaster Risk Management Working Paper Series No. 10 (Washington, DC, World Bank), at: http://www.microfinancegateway.org/gm/document-1.9.25290/23882_file_23882.pdf
- SEEP Network. 2009. *Minimum standards for economic recovery after crisis* (Washington, DC, SEEP), at: http://communities.seepnetwork.org/econrecovery/node/821